INDIAN ECONOMIC PROBLEMS:
PRE-WAR, WAR AND POST-WAR

INDIAN ECONOMIC PROBLEMS: PRE-WAR, WAR AND POST-WAR

Vol. II

Comprising

PART II

WAR ECONOMY

and

PART III

POST-WAR PLANNING

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PREFACE

The treatment of our war economy in this volume might have been fuller, but there are two excellent studies on the subject, *Indian Economy during the War* by Dr. L. C. Jain (2nd edition) and *War and Indian Economic Policy* by Messrs. Gadgil and Sovani (2nd edition). More space has been devoted to the Bombay Plan, which is India's first real attempt to think on constructive lines in the economic sphere. 'Created money' in the Bombay Plan has provided an easy target for criticism; inflation is another subject which has been much debated. A great deal of confusion in regard to inflation has been created by eminent professors of economics; the businessman, in closer touch with reality, has little difficulty in understanding why prices rise in war-time.

As in Vol. I, there are formulae and equations in Vol. II. The Douglas-Cobb formula, an interesting device for determining the ratio of capital to product, has attracted wide notice*, and Dr. Lokanathan has used it in the discussion of 'the ratio' in the Bombay Plan.† (Attention may be drawn to a simpler formula which gives the same, if not slightly better results. *See* Appendix C). This book is not meant for the general reader but for students reading for the higher University examinations, and the time has come when they should be introduced to exact methods of handling statistical data.

The summary gives a bird's-eye-view of the whole ground covered in the two volumes.

* See *The Theory of Wages* by P. H. Douglas, Chapter V, *The Conditions of Economic Progress* by Colin Clark, Chapter XI, and *Econometrica* for April, 1938.

† *Principles of Economic Planning* by Dr. P. S. Lokanathan, (New Delhi, 1943,) Chapter I.

It gives me great pleasure to acknowledge the help I have received in the preparation of the book from Prof. R. K. Sud, of the English Department of my College, and Prof. Chiranjiva Lal of the Dyal Singh College. The book owes many improvements of expression to Prof. Sud. Discussions with Prof. Chiranjiva Lal, my co-worker in this field, have led to clarification of ideas, particularly on two subjects—inflation and 'created money'. I am glad to be able to say that at least two old teachers of economics in this part of the country view 'created money' without alarm. Both of us are agreed that the Bombay Plan is workable under the assumed conditions Both of us are agreed that the Plan will never be tried. The partition of India will finish it. Provincial autonomy will wreck it. The condemnation of the Plan by the British press has only one meaning. And it is extremely doubtful if the Plan will be whole-heartedly accepted by the votaries of the *charkha* and of 'freedom and democracy'. Planning in India requires dictatorship or 'democracy' of the Russian type.

Half a loaf is better than no loaf, but half a plan is *not* better than no plan.

LAHORE :
August 24th, 1944

BRIJ NARAIN

CONTENTS

APPENDICES

ERRATA

Vol. I

P. 42, 6th line from bottom. *For* $y=Kab^x$ *read* $y=Ka^{b^x}$

P. 43. *For* lines 5th and 4th from bottom *read* :—

$$12 \log b = \bar{1}\cdot07805108469, \quad \therefore \log b = \bar{1}\cdot92317092387$$

$$\text{anti-log} = \cdot837858892$$

,, 2nd line from bottom.

For $=2 \log \cdot83$ etc. *read* $\log b^2 = 2 \log \cdot83$ etc.

P. 44. 3rd line from top. *For* we obtain log, *read* we obtain

,, 12th ,, ,, ,, *For* $\bar{1}\cdot92317098387$ *read* $\bar{1}\cdot92317092387$

,, 19th ,, ,, ,, *For* $\bar{2}\cdot68$ etc. *read* $2\cdot68$ etc.

,, 20th ,, ,, ,, *For* $3\cdot64$ etc. *read* $\bar{3}\cdot64$ etc.

,, 28th ,, ,, ,, *For* $8\cdot82$ etc. *read* $7\cdot82$ etc.

,, ,, ,, ,, ,, *For* $\bar{2}\cdot824511068$ *read* $\bar{3}\cdot824511064$

Pp. 59 and 60. *For* the last line *read* :

$$\log y = 2\cdot0152 - 1\cdot0133x.$$

Vol. II

P. 7, 5th line from bottom. *For* defects *read* deficits.

P. 37, 4th ,, ,, ,, *For* cotton *read* cotton cloth.

P. 192, 19th ,, ,, ,, *For* 800 *read* 700.

P. 245, 9th ,, ,, ,, *For* reveal *read* reveals.

P. 262, 24th ,, ,, ,, *For* a *read* or a.

CHARTS

INDIAN ECONOMIC PROBLEMS

SUMMARY

PART I.—PRE-WAR PERIOD

CHAPTER I.—The Population of India.

Methods. The census operations of 1941 differed widely in their circumstances and operations from those of the previous decades.

(1) The 'one night theory' has been abandoned. Counting was done during several days on the basis of ordinary residence; the house-list was extended so as to give a distribution of the persons in each house by sex and age. *The one-night operations of the past had to* be abandoned on account of communalism. The enumerators are mostly unpaid, and there was a danger of the record being falsified by deliberate swelling of numbers. In fact the language and script returns are unreliable, and the Census Commissioner has recommended that these questions be dropped from all future censuses until communal frenzy abates.

(2) Information has been collected for the first time which would throw some light on the fertility of women in different parts of India. With its help we may calculate gross and net reproduction rates for India.

(3) We have also community determination for the first time. We have now no all-India caste-returns and no returns according to religion, but by community.

(4) Attempt is being made to rationalise the census. This means that the Central Government would bear the cost of collecting information, chiefly, about means of livelihood, community, civil condition, birth place, and mother-tongue. Any other information will be collected only at the cost of the party wanting it.

Recommendations. The Census Commissioner has suggested the following improvements in method for future censuses.

(*i*) Continuity in census operations is desirable, and therefore provision should be made for between-census consideration of the results of the previous and preparation for the next census.

(*ii*) The one-night round should definitely go. The house-list should be kept permanent by correcting it annually ; house-numbering should also be made permanent.

(*iii*) The synchronised census should be abandoned, that is, the periods of enumeration in different parts of India need not be the same.

(*iv*) Natural agencies such as village officers should be used for the census in rural areas, and the village, in place of the artificial bloc, made the original census unit.

(*v*) In towns enumeration should be carried out by sanitary inspectors, bill collectors, etc.

Area and distribution. The area of India is 1·58 million square miles (provinces 865,000, and States 716,000 square miles). The population of India in 1941 was 38,90 lakhs (provinces 29,58 lakhs and States 9,31 lakhs). Both the provinces and States vary greatly in area and population.

Density. The density per square mile in 1941 was 246 (provinces 341, States 130) There are great variations in density (Bengal 779, Baluchistan 9 ; Travancore 792, Kashmir 49). At the census of 1931 density was 213.

Density in an agricultural country is determined by three main factors, (*a*) configuration of the land, (*b*) rain fall, and (*c*) irrigation. Where there are no hills and forests, and irrigation is not very important, density varies according to rainfall. The influence of irrigation as a factor in determining density is shown by the increase in density in the district of Lyallpur (Punjab) from 7 in 1891 to 368 per square mile in 1931. Another example is the 40 per cent increase of Sikhs in Bikaner. "Where you have an empty country suddenly presented with the means of filling it, the filling process starts at a high speed."

Industrial countries become independent of agricultural conditions, and density is determined by the growth of trade and industry. Food is imported.

Growing pressure on agricultural resources. The population of India increased by 10·6 per cent between 1921 and 1931, and by 15 per cent between 1931 and 1941. The main occupation of the people is agriculture. The area under cultivation has not kept pace with the growth of numbers. The result is growing pressure on the land. This pressure was relieved in the past by famine and disease, and there is reason to fear that unless voluntary checks come into operation (which is difficult), famine and disease will take a heavy toll of life in the coming years.

External emigration, as an outlet for surplus population, has ceased to be of any account. Migration of labour within the country is generally unrestricted. The factors which limit the internal movement of labour are three: (1) attachment to land, (2) indebtedness, and (3) the important factor of ill-health.

Movement of the population. Between 1872 and 1921 the movement of the population was irregular. The real increase of numbers between 1872 and 1881 was only 1·1 per cent on account of heavy famine mortality in 1877-78. The population increased rapidly in 1881-91 (9·1%), but famine and plague slowed down the rate of growth in 1891-1901 (1·4%). The decade 1901-11 was a period of 'moderate agricultural prosperity' and population increased by 6·3.%. The oustanding feature of the next decade, 1911-21 was the influenza epidemic which is estimated to have carried off about 7 per cent of the population. The population increased by 1·2 %.

A new cycle of growth commenced in 1921. Over 3 crores were added to the population in 1921-31 and 5 crores in 1931-41. What has made this enormous increase in numbers possible ?

Between 1920 and 1940 the trend of the death rate, the infantile mortality rate and the rate of mortality from cholera, smallpox and plague was downwards. Of special significance is the fall in infant mortality. It has been estimated that if the trend continues to be downwards, the addition to the population from this cause alone will be 7·0 millions in 1951 and 13·4 millions in 1961. The birth rate between 1920 and 1940 had a rising trend.

Gross and Net Reproduction Rates. On the basis of fertility rates for Ajmer-Merwara, the gross reproduction rate is 2·65 and the net production rate (R_0) is 1·19. Ours is a growing population.

Gross Reproduction Rate. Between the ages 15 and 50 the total number of children born per 1,000 females is 5,519·3.

The ratio of male to female births in India is 108 male to 100 female births. Given this ratio, of the total number of children born per 1,000 women during the child-bearing period (5,519·3), 2,653 were female children. The gross reproduction rate, per 1,000 is, therefore, 2·65.

Net Reproduction Rate. We may assume that fertility remains constant, but we cannot assume that no female baby will die before reaching the age of 50 years. Allowing for the deaths of female babies as they pass through the age-groups from 0 to 50 (with the help of mortality tables), we find that the total number of surviving women by whom present women will replace themselves is

1,194. The net reproduction rate per thousand (R_0) is thus 1·19. Japan has a net reproduction rate of 1·44; the United States, France, England and Wales, Scotland, Sweden and Switzerland have net reproduction rates of less than 1, which means that unless there is a change, these countries are threatened with a population decline.

Age-Composition. Our age-pyramid has a broad base and a narrow top, like that of Germany for 1880. In 1925 the first age-block of Germany had shrunk (due to fall in the birth-rate). Changes in the age-composition of the population in India are largely due to famines or epidemics.

Scarcity of females. There is a deficiency of females in our total population (an excess of females in Europe). This must be due to harder conditions of life for women (*Pardah*, early marriage, high maternal mortality).

Marriage. Marriage is more general in India than in European countries and the age of marriage is lower. We have also a higher proportion of widows.

Expectation of life. The expectation of life at birth in India (about 27 years) is about half of that in England and Wales and in Germany. When the number of survivors at different ages, from 5 to 75 years, is plotted on graph paper, the points for India show a negligible bulge—they arrange themselves around a straight line. The curves of survivors for Germany show an increasing bulge for different periods from 1871-72 to 1932-34.

Town and Country. In 1941 the town population was 16·1% of the total (11% in 1931). 'India is in for urbanization on a big scale.' The causes are (*i*) progress of manufacturing industries, (*ii*) improved accommodation in towns for the middle classes, (*iii*) improved means of transportation (train and bus), and (*iv*) the attractions of town life (restaurants and cinema houses). The progress of education and anti-money-lender legislation are also contributing factors.

The towns are growing irregularly and are full of dirt and squalor.

Literacy. The increase in literacy in 1941 over 1931 was 70 per cent for the whole population, of which the male increase was 60 and the female 150. In 1931, 17·4% of males and 3·1.% of females were literate.

Community. Between 1881 and 1941, the proportion of Sikhs has doubled; the increase in the proportion of Muslims is comparatively less marked. What is most noticeable is the continued fall in the proportion of Hindus (from 74% to about 66%). While the proportional strength of Hindus has declined, the actual number of Hindus has increased—but sister communities have a more rapid rate

of growth. Polygamy, widow remarriage and, on the whole, later consummation of marriage account for the faster rate of growth of Muslims.

Future Growth. It is not possible for us to maintain our present rate of growth for any considerable period of time. India is definitely over-populated. The test of over-population in an agricultural country is simple. Is the area under cultivation expanding side by side with the population ? In India it is stationary. The growth of numbers must eventually lower the standard of living, low as it already is. There is no hope of raising the standard of living of the masses unless the growth of numbers is checked. An enlightened, well-fed, well-clothed and properly-housed population of 200 millions will be better than a crowd of about 400 millions, most of whom do not know the meaning of education and culture, economically speaking are more dead than alive, and exist only as *balidan* for epidemics.

Chapter II.—Agriculture

The State in relation to agriculture. The State has taken an active interest in the improvement of Indian agriculture. A Central Department of Revenue, Agriculture and Commerce functioned from 1871 to 1879. The report of the Famine Commission of 1880 led to the establishment of provincial departments of agriculture. An Imperial Research Institute was founded at Pusa (later transferred to Delhi). Other Institutes are concerned with animal husbandry, dairying, sugar-cane breeding and veterinary research. The Indian Central Cotton Committee is concerned with the improvement of cotton cultivation. Agricultural research throughout India is directed and co-ordinated by the Imperial Council of Agricultural Resarch.

Dr. Voelecker's Report (1889). Dr. Voelecker was favourably impressed by our methods of cultivation. He thought that the export of food-grains, oil-seeds and manures would lead to a gradual deterioration of the soil. The burning of cattle-dung for fuel has the same effect. He recommended the establishment of Fuel and Fodder Reserves, extension of cattle farms, enquiry into cattle diseases, and the trial of new agricultural implements at Government experimental farms.

The Royal Commission on Indian Agriculture (1928). This Commission comprehensively reviewed our agricultural problems and issued a monumental report. The Commission emphasized the importance of agricultural research and the need for trained research workers. The establishment of the Imperial Council of Agricultural Research was one of the results of the labours of this Commission. It

recommended the development of demonstration and propaganda for the improvement of agriculture. Improved implements are popularised by peripatetic demonstrators. Demonstration trains are also used for propaganda. Improved methods of cultivation are demonstrated on the cultivator's holding.

Agricultural improvement. A soil survey is desirable but not practicable for the whole of India. Afforestation, terracing of land and construction of embankments are means of checking erosion of the surface soil by flood-water. Better use should be made of farmyard manure. Oil-seeds may be applied as manure in the form of cake; an extension of the oil-crushing industry would benefit the Indian agriculturist in more than one way. Other forms of manure are bones and bone-meal, and fish-manure.

The area under improved varieties of crops (cotton, sugar-cane, wheat, rice, groundnut and jute) exceeds 9 million acres. Of the methods of obtaining improved varieties, selection is the most important for us. Selection and distribution of pure seed must be controlled by Agricultural Departments. As for implements, the types evolved should be suitable for a wide range of conditions and also for mass production in India.

The cost of bullock cultivation is high, but there is no definite evidence on which the advantage of power cultivation under Indian conditions could be demonstrated.

Sub-division of holdings. This means the distribution of the land of a common ancestor, usually in accordance with the laws of inheritance, among his successors-in-interest. Continuous sub-division reduces the size of the holding until it becomes uneconomic, The creation of 'impartible' holdings is difficult: (*i*) it is not easy to determine the size of the impartible holding (*ii*) the credit of the agriculturist would be impaired, (*iii*) transactions in land would become complicated, and (*iv*) family strife would be caused by the absence of alternative occupations for the dis-inherited.

Fragmentation of holdings. This means scattered holdings. Our laws of inheritance require that each son be given a share in each plot of land. Apart from fragmentation caused by sub-division, there is fragmentation of cultivation when land is given to several tenants for cultivation.

Voluntary consolidation has been successfully tried as a remedy against fragmentation. Compact holdings lead to well-sinking and other improvements.

Owners' and Cultivators' holdings in the Punjab. Land is very unequally distributed among owners in the Punjab—12% of

the land is owned by 58·3 per cent of the owners, each owning less than five acres, and 25·7% of the land is owned by 3·7% of the owners, each owning 50 and more acres.

An examination of cultivators' holdings shows that when the land owned is 20 or more acres, many owners do not cultivate themselves. In certain districts of the Punjab 50% of the cultivators cultivate 2½ acres and less (Simla, Kangra, Hoshiarpur, Rawalpindi and Jullundur).

Cultivators and the size of the holding. Provincial statistics show that the average size of the holding decreases with an increase in the number of cultivators, per 100 acres of net sown area, according to the law :

$$\text{Log } y = 2{\cdot}0152 - 1{\cdot}0133 \log x.$$

Bullocks and Cultivators. The number of bullocks increases with the number of cultivators and their quality inevitably deteriorates. The worse the conditions for rearing cattle, the greater the numbers kept tend to be. We are thus moving in a vicious circle. Attempt should be made to reduce the number of bullocks required for cultivation by checking the sub-division and fragmentation of holdings, improving the tillage implements, and in other ways. The two important factors in cattle improvements are feeding and breeding.

The milk and *ghi* problem is more acute than ever before. Large dairy-farms should be established with the assistance of municipal corporations.

Marketing. The cultivator should be encouraged to take his produce to the *mandi*. Selling in the village has some advantages, but the cultivator secures a better price in the *mandi*. The construction of village roads would promote this end.

Regulated Markets. The establishment of regulated markets in which marketing functionaries are licensed and their charges are fixed, is to be welcomed. We have too many marketing functionaries and too many unregulated marketing charges. The system of settling rates under cover in which 'all speak with their hands, as it were, is not free from suspicion and abuse.

The Punjab Agricultural Produce Markets Act was passed in 1938, Similar legislation has been enacted in some other parts of India.

Rural unemployment. There is no permanent unemployment among the agricultural classes, but, particularly in *barani* tracts, the agriculturist is idle for several months in the year.

Employment is provided by factory industries in towns or in rural areas, and by agriculture elsewhere. Organised industries in rural area are cotton ginning and pressing, rice and sugar mills.

Subsidiary occupations. "To put it briefly, the possibilities of improving the conditions of the rural population by the establishment of rural industries are extremely limited." (Agricultural Commission).

Rural Self-sufficiency. Village people are at present largely self-sufficient, but, with economic progress, they would tend to become less and less self-sufficient. The isolation of the village and village life is a thing of the past.

Yield of Crops : Food. The Famine Commission of 1898 estimated India's surplus of food-grains at the end of the 19th century at 9·53 million tons. At present, on account of the growth of numbers and the separation of Burma, no surplus of food-grains exists in the country. Between 1935-36 and 1941-42 there was no net export but net import of food-grains and food-grain products.

Agricultural Statistics. Agricultural statistics in India are primarily collected as an aid to administration. For areas under permanent settlement even statistics of area are unreliable.

How yields are estimated. Three facts are taken into account in estimating yields—the area under crops, the standard yield, and the condition estimate. If the area under a crop is 100,000 acres, the standard out-turn 500 lbs. per acre, and the percentage estimate 80, the estimate of yield is $100{,}000 \times 500 \times 80/100 = 40{,}000{,}000$ lbs.

Standard yields are based on crop-cutting experiments, average crops being selected by the eye for this purpose. The condition estimate is a visual estimate expressed in annas. The anna estimate is primarily made by Patwaris in a tehsil ; on this basis an average for the district is chosen, and on the basis of district figures an average for the whole province.

There is urgent need for a more accurate estimation of yields of the more important crops. Messrs. Bowley and Robertson recommended the re-organisation of agricultural statistics (1934).

Irrigation. The total irrigated area in British India in 1939-40 was about 55 million acres (Canals 25 million, and wells 13½ million acres). The Punjab has the largest area irrigated by Government canals, over 11 million acres ; well irrigation is important in U P., and tank irrigation in Madras. Tube-well irrigation is a recent development. It is never cheap as compared with canal irrigation, and it does not pay unless a valuable crop, such as sugar-cane, potatoes and tobacco, is grown.

There is an enormous waste of canal water by the cultivator, partly due to uncertainty of supply. The waste could be prevented by charging for water according to the amount used, but this is not considered practicable.

The Water-rates. The net revenue due to irrigation exceeds Rs. 3½ crores in the Punjab. During the Great Depression the water rates become a heavy burden on the cultivator and the demand was made for the levy of water-rates according to the cost of service principle. Government did not agree. The Government view is that irrigation works were erected for the benefit of the whole population, and therefore the whole population should share in the benefits of canal irrigation ; in other words, the water rates are frankly levied as a tax. According to the Indian Taxation Enquiry Committee (1925) the normal charge for water should be a 'moderate share of the value of the water to the cultivator.'

Warter-logging. While there cannot be any dispute about the benefits of canal irrigation, its rapid development in the Punjab gave rise to a serious problem, water-logging.

Water-logging is due to the rise of the spring level. When the spring level has risen so much that it is only within a short distance, or a few feet of the ground surface, water is drawn up by capillary attraction. The affected land is then covered with *kallar* (salts), and finally it is turned into a swamp.

It has been estimated that of the water taken in at the head-works of the Punjab canals, about one-third is lost, through percolation, in the main canals and branches. Of the remaining water, that is water in the distributaries and water courses and that supplied to the fields for actual irrigation, also one-third percolates to the sub-soil to raise the spring level.

When a canal is so constructed that it obstructs the natural drainage of a tract (as was the old Western Jamna Canal), water-logging will appear after heavy rains. Remodelling of the canal is necessary in such cases.

The Drainage Board is concerned with improving the natural drainage of the country.

The lining or water proofing of a canal (*e.g.*, Gang canal) is an expensive remedy.

Apart from the opening out of closed and obstructed drainages, the only two remedies which have been found effective are (1) replacing canal irrigiation by irrigation from wells, and (2) pumping from sub-soil.

The cost of well-irrigation is about 6 times greater than that of canal irrigation (Rs. 22 and Rs. 3/8 per acre respectively). But it is obvious that where water-logging is threatened, canal irrigation must be restricted. Attempts are also being made to prevent over-irrigation.

Irrigation engineers now take a less pessimistic view of the situation than they did before.

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CHAPTER III—Manufacturing Industries

Sinister meaning of the growth and progress of Indian Industry. The development of organised industry in India has increased the pressure of population on the soil. This is because consumer's goods are produced with imported machines. This is not the meaning of industrialisation. We have almost entirely neglected the production of technical equipment.

Industry supported a higher proportion of the population in 1901 than in 1931. Most of our industrial workers are cottage workers. Machine competition ruins cottage industries, forcing cottage workers to take to agricultural occupations.

The industrial proletariat in India is negligible. The total number of workers employed in factories in 1939 was under two millions.

Cottage Industries Cottage industries produce a great variety of products but, before the war, they were rapidly declining for the following reasons : (*i*) machine competition, (*ii*) changes of fashion and ideas, (*iii*) lack of co-operation among workers and (*iv*) loss of skill and knowledge. Political leaders have interested themselves in the revival of cottage industries, and Government Department of Industry, in each province, is also largely concerned with hand-workers. The Department of Industry maintains industrial schools where many arts and crafts are taught. The Department organises travelling demonstration parties with the object of bringing new implements to the notice of hand-workers.

Mineral Production. About half a million workers are engaged in the production of minerals. A favourable view is taken of India's mineral resources. Were India isolated from the rest of the world, she would still be able, from within her own boundaries, 'to supply very nearly all the requirements of a highly civilized community' (V. Ball).

The production of minerals suffered a check during the Great Depression on account of the fall of prices and the contraction of world trade. The chief minerals produced are chromate, coal, copper ore and matte, diamonds, gold, iron, manganese, manganese ore, mica, monzite, zircon and elmenite, petroleum, ruby, sapphire and spinel, saltpetre, tin and tungsten concentrates. Without Burma India produces a negligible quantity of petroleum.

Coal, The output of coal has increased from 4 million tons (1887) to 29 million tons (1940).

The object of the Coal Grading Board, constituted in 1926, is to ensure that only good-sized coal is exported. The industry suffered a severe set-back during the Great Depression. This was due to

over production and internal competition. Recovery began in 1937 and the industry was in a very prosperous condition in 1940, but again profits fell heavily in 1941. The combined demand for coal on the part of Government and public utility concerns accounts for a large proportion of the sales, and the scope for the rise of prices is, therefore, limited

Industrial profits 1928-41. Industrial profits sank to their lowest level in 1931, after which a gradual improvement began. There was a set back in 1936-37. In 1941 the chain-index stood at about 138.

Government policy in regard to manufacturing industries. Government attitude towards industry in the part was that of indifference, if not of definite hostility. The Famine Commission of 1880 recommended the 'development of industries other than agriculture and independent of the fluctuation of the seasons', but free trade became our fiscal policy in 1879, which rendered the growth of manufacturing industries practically impossible.

The danger of industrial deficiencies were pointed out by the Indian Industrial Commission (1916-18). Government policy changed during the last World War (1914-18) and, apart from action taken by the Government to encourage Indian industries, the rise of prices, caused by the shortage of imports, gave a great stimulus to Indian manufacturing enterprise. India's fiscal policy was examined by the Fiscal Commission (1921-22). The Commission recommended protection applied with discrimination. A Tariff Board deals with claims for protection. Before recommending protection the Tariff Board has to satisfy itself: (*a*) that the industry possesses natural advantages, (*b*) that without the help of protection it is not likely to develop at all, or not so rapidly as is desirable, and (*c*) that it will eventually be able to face world competition without protection. The chief objects of the Fiscal Commission in recommending discriminating protection were: (*a*) to prevent the establishment of unsuitable industries, and (*b*) to maintain a favourable balance of trade (heavy and indiscriminate protection might reduce the foreign demand for Indian exports).

Iron and Steel. The first fruit of the labours of the Tariff Board was an Act, passed in 1927, providing for the fostering and development of the iron and steel industry; protection was granted in the first instance for a period of three years. The Act imposed duties of 30-40 per cent on imported iron and steel. The rise of the rupee exchange and the continued depression in the steel industry in European countries led to two further enquiries by the Tariff Board in 1924 and 1925, and the Tariff Board recommended the grant of

bounties of a limited amount, for a limited period, on the production of steel ingots. The situation was reviewed in 1926. The continuance of protection for a period of 7 years, until 1933-34, was recommended but the bounties were discontinued. Two scales of duty were adopted, 'basic duty' and 'additional duty', British steel paying the former, and continental steel both.

Under protection the iron and steel industry progressed rapidly, and in 1934 protection was extended till 31st March, 1941.

The chain-index of profits in the industry rose from 66 in 1932 (1928=100) to 387 in 1941.

The industry attained an average annual output of 750,000 tons of finished steel in normal times. The output in 1941-42 was at least 50% greater than in peace time.

Welfare-arrangements at Jamshedpur are praiseworthy.

The Cotton Mill Industry. At the close of the last century the cotton mill industry was essentially a spinning industry (a little less than half of the total yarn produced was exported). It became a weaving industry during the ten or twelve years preceding the last world war. The war, and specially the three years following the cessation of hostilities, were a period of great prosperity for the industry. The boom was followed by the inevitable depression, and the industry suffered heavy losses in 1924-25. A demand for protection was made in 1926, but protection was not granted before 1930. From a little over 1,000 million yards in 1913 the production of cotton piece-goods in Indian mills rose to over 4,000 million yards in 1937-38; the imports of piece-goods during this period fell from over 3,000 million yards to about 600 million yards.

The chain-index of profits rose from 37·9 in 1930 (1928=100) to 533 in 1941.

A British Textile Mission concluded an Agreement (1935) with our industry known as the Mody-Lees Agreement. It related to the import duty on cotton goods and the encouragement of the consumption of Indian Cotton in Lanchashire. The first trade agreement with Japan was concluded in 1934; it fixed a quota for Japanese piece-goods imports and linked imports from Japan with the purchase of Indian cotton by Japan.

The Sugar-industry. Protection was granted to this industry in 1932, and it rapidly made India self-sufficient; the imports of Java sugar fell from 937,000 tons in 1928-29 to about 13,000 tons on 1937-38.

The growth of the sugar industry has led to a considerable increase in the area under sugar-cane.

U. P. and Bihar are the two important centres of sugar production, U.P. accounting for 57% and Bihar for 24% of the total output.

Most of the sugar produced in India is cane-factory production. The present output of 151 factories may be taken as a little over 1 million tons annually.

An excise duty on factory produced sugar was imposed in 1934-35, partly to compensate the Government for the loss of revenue from sugar imports duties, and partly to prevent an undesirably rapid expansion of the industry.

Match Industry. Before 1921 we had only a single match factory; the imports of matches in 1919-20 amounted to 15 million gross boxes. Duties on imported matches were imposed for revenue purposes but they were so high as to have a protected effect; finally these duties were declared protective. A match industry came into existence, with a total capacity of about 18 million gross boxes annually.

Cement. The cement industry enjoys many natural advantages, but in 1914 the total quantity of Portland cement produced in India was only 945 tons. During the last world war cement factories (3 in number) worked under Government control When the control ended, cement companies were able to sell their product at very remunerative prices. Production increased and the price of cement fell. The demand for protection was refused. Finally prices were stabilised by agreement among producers.

The production of cement in 1937-38 exceeded 1 million tons. The cement industry is working more or less as a single organisation.

Paper. Protection was granted to the bamboo and the paper pulp industry in 1932.

Paper has been hitherto made in India from *sabai* grass, but the cost is high as compared with that of paper made from bamboo pulp. The future belongs to the bamboo and the paper pulp industry. Paper made from bamboo pulp is inferior to *sabai* grass paper in strength and durability, but for the great bulk of papers consumed in India, bamboo fibre is good enough. Our bamboo resources are inexhaustible while *sabai* grass is becoming scarcer.

The output of paper in 1939-40 was about 71,000 tons. It is impossible to make newsprint in India, which must be imported. We cannot have cheap newspapers unless we continue to use imported papers containing a high proportion of mechanical wood-pulp.

There are also certain kinds of paper which are not likely to be made in India—expensive rag papers, all-coated paper such as art

paper, and special manufactures such as blue match-paper and tissue paper. Indian mills have started making pasteboard, mill-board and cardboard.

Jute. The inception and development of the jute industry is due to foreign enterprise. The contraction of world trade during the Great Depression caused a heavy fall in the price of jute. The situation was met by the curtailment of factory production and Government propaganda to persuade the cultivator to sow less jute.

Several fibres have begun to compete with jute (sisal, New Zealand flax and Canadian sack-wool) ; the production of jute in the Amazon valley is also increasing.

New uses for jute have also been discovered—for insulating materials, in building and in road making.

Profits in the jute mill industry in 1941 were below the level of 1928.

Tea. The Great Depression also affected tea—there was a heavy fall in the value of exports in 1932-33 owing to the fall of prices. The decline in prices was arrested by an international agreement to restrict production and control exports. The tea industry, 'taking a very long view' is thinking of developing the American markets, but U. S. A. is also threatened with a population decline like the United Kingdom.

CHAPTER IV.—Labour Problems.

Problems connected with Indian factory labour were examined by the Labour Commission in 1929. The recommendations of the Labour Commission related to (*a*) conditions of employment and work, (*b*) The standard of life of the worker and (*c*) such questions as workmen's compensation, trade unions and trade disputes.

The Factories Act of 1934 was passed to give effect to some of the recommendations of the Labour Commission. For adults hours of work were fixed at 54 per week in perennial and 60 per week in seasonal factories ; the daily limit is 10 and 11 hours respectively. Provision is made for a rest-interval, and periods of work shall not spread over more than 13 hours in any day. No child (under 15 years) who has not completed his 12th year shall be allowed to work in any factory. Hours of work for children are not more than 5 daily, and spread-over 7½ hours. Adult labour may not be exacted from an adolescent (15-17 years of age) without a certificate of fitness.

The Children (Pledging of Labour) Act was passed in 1933. An agreement to pledge the labour of a child, except under specified conditions, is void.

The Indian Mines Act of 1932 was amended in 1935. Hours of work above ground are 54 a week and 10 in any day, and below ground 9, including spread-over.

Payment of Wages. The Act of 1935 provided for the payment of wages before the expiry of the 7th day from the last day of the wages period (usually a month) in which the wages have been earned. The Act recognizes 11 kinds of deductions which may be made from wages and no other.

Workmen's Compensation. The old Act of 1923 was amended in 1933 and new classes of workers (*e.g.* workmen in mines, workmen engaged in building work etc.) included in the benefits. Compensation is paid according to graduated scales in the event of death as well as disablement. Between 1924 and 1938 the amount of compensation paid totalled over a crore of rupees in over 280,000 cases.

Industrial Disputes. The Act of 1923 was amended in 1932. The Act is divided into three parts. The first part makes provision for the settlement of disputes through conciliation and arbitration. The second part relates to public utility services (*e.g.* post and telegraphs, water or electricity or public conservancy). It is a penal offence for workers employed in public utility services to strike without previous notice. The third part of the Act is connected with strikes and lockouts, which (*a*) have other objects than the mere furtherance of a trade dispute, and (b) are designed to coerce the Government either directly or by inflicting hardship on the community. Such strikes and lockouts are illegal.

Provincial Labour Legislation. This relates to a great variety of subjects (*e.g.*, trade disputes, maternity benefits, unregulated factories, workmen's protection against money-lenders). Shops' Legislation has been enacted in Bombay, Bengal, Sind and the Punjab.

The Industrial Statistics Act (1924) *permits* the collection of statistics with regard to prices, living conditions of workers, rents, wages, indebtedness and other subjects. The regular and systematic collection of industrial statistics is of great importance. It should be made compulsory.

The Standard of living. It varies in different parts of the country but the information available is meagre. There is improvement in the Bombay cotton mill industry, which is shown by a fall in 1932-33, as compared with 1921-22, in the proportion of the total expenditure on food from 59·8% to 46·6%. The average earnings of workers in the Engineering industry of Bombay are higher than those of workers in other factory industries.

Indebtedness. In most industrial centres the proportion of families or individuals in debt is about two-thirds of the whole. The rates of interest are high.

Frequencies of rates of wages. Examples of symmetrical frequency distribution are rare. In most cases the distribution has marked positive skewness, that is, there is a longer sketch of tail to the right than to the left. Moulders (Ahmedabad City) give a fairly good bell-shaped curve.

Wages in Assam. The Labour Commission found that workers on Assam Tea Plantations stood in special need of protection. There were no unions of labour, while the employers had powerful organisations. The Labour Commission recommended the establishment of statutory wage-fixing machinery in this case. The proposal was successfully opposed by the employers.

Trade Unions. The Trade Union Act came into force in 1927. The registration of trade unions is not compulsory, but any 7 members of a trade union may, under certain conditions, apply for its registration under the Act.

The two chief features of the Act are the principle of immunity in respect both of civil and criminal proceedings against a Trade Union and the constitution of a separate fund for political purposes. Not less than one-half of the total number of officers of every registered trade union shall be persons engaged or employed in an industry with which the Trade Union is connected.

The number of registered trade unions in 1939-40, was 450, with a membership of about half a million. All trade unions are not registered unions. It cannot be said that our industrial labour is powerfully organised. The difficulties of industrial labour are many: (1) migratory character of the bulk of Indian labour, (2) differences of language, (3) social and communal differences, (4) poverty of the worker, and (5) incompetent and often selfish leadership.

The earliest unions were formed as far back as 1880. The All-India Trade Union Congress was formed in 1920. There was a split in 1940, and the followers of Mr. M. N. Roy founded a separate organisation called the Trade Union Federation.

Chapter V.—Educated Unemployment.

We cannot properly speak of unemploment in agriculture. There must be some industrial unemployment in India, but its extent is not known. There is unemployment in the true sense among educated young men.

The number of matriculates, under-graduates and graduates has rapidly increased. The education given in our schools and colleges

is mainly of a literary character, and it leads to only one end—examinations.

The scope for employment in Government service is extremely limited. Cottage industries are recommended for the educated unemployed, but an average graduate is not a craftsman. Agriculture is already over-crowded.

Schemes of post-war reconstruction are under consideration, including the development of technical, commercial and art education. The estimated gross annual expenditure will be no less than Rs. 313 crores, of which Rs. 277 crores is to be met from public funds. Polytechnics will be preferred to monotechnics, and an Employment Bureau will be established. The development of technical education is dependent on industrialisation, which is the only solution of educated unemployment.

CHAPTER VI.—Railways.

The railways play a vital part in the movement of goods within a country. They are an important means of famine protection and they have helped in the consolidation of political power.

Our railway system has not developed naturally like the English system. Favourable rates for raw produce moving to the ports and manufactured articles moving up-country from the ports, have discouraged Indian manufacturing industries and led to the congestion of industries in port towns.

Government and Indian Railways. Of the important lines five are owned and worked by the State, four are owned by the State but worked on its behalf by guaranteed companies, two important lines and many others are owned by private companies, some of which are worked by private companies, while others are worked by the State or by the companies which work State-owned systems; several minor lines are the property of District boards, or enjoy a guarantee of interest by such Boards. Over all lines in British India, however, the Government of India exercise general powers of control.

Railway construction started in 1849 under the guarantee system. In 1862 an attempt was made to promote railway construction by means of subsidies instead of a guarantee of interest. The subsidies, however, failed to attract capital. Two changes were made in Government policy in 1869: (1) more profitable arrangements from the point of view of Government were made with guaranteed companies, and (2) Government decided to construct railways itself. In 1880 the Strachey Famine Commission urged the necessity of a rapid extension of the railway system. More guaranteed companies were

formed after 1880, but in each case the terms of guarantee were more favourable to the Government than in the case of the first guaranteed companies. The Government have freely exercised their right of terminating the contracts of the railway companies. The total mileage open to traffic is about 43,000 miles.

Indianisation. A policy of Indianisation of the superior services is being pursued.

Separation of railway finance from the general finances of the country. The Acworth Committee recommended the complete separation of the railway budget from the general budget of the country. Under the old system receipts from the State Railways (worked by State and by companies) formed part of the general revenues of the country out of which allotments, varying from year to year, were made for capital expenditure. The allotments were inadequate. Under the new arrangements, which came into force from the year 1924-25, the railways made a fixed contribution to the general revenues equal to 1 per cent of the capital at charge of commercial lines *plus* $\frac{1}{5}$th of the surplus profits of the penultimate year.

Railways in the Depression. In the period of 5 years ending 1926-29 the average annual contribution of the railways to the general revenues was about 6 crores. In this period the net revenue of the railways exceeded the interest charges each year by $9\frac{3}{4}$ crores on an average, In the year 1929-30 net revenue was still greater than interest charges but from 1930-31 to 1936-37 interest charges each year exceeded the net railway revenue. The net revenue was lowest in 1932-33 and the deficit highest in the same year. At the end of 1936-37 the unliquidated liabilities of the railways amounted to 61 crores, of which $30\frac{1}{4}$ represented the amount borrowed from the depreciation fund and Rs. $30\frac{3}{4}$ crores unpaid contribution to general revenues.

The railways took steps to improve earnings and reduce working expenses. 'Job analysis' effected more economies. The Wedgewood Committee (1937) recommended measures to increase revenue, and described the functions of the 'Industrial Agent' on the British railways. The Committee did not favour a general increase in rates and fares at the time.

State *versus* Company Management. The question State *versus* Company management of railways was discussed by the Acworth Committee of 1920-21, but the recommendations of the Committee on this subject were not unanimous. The Government of India are convinced that State management in other countries has

almost universally failed. But real Company management is impossible in India. In the case of the important lines the greater part of the capital was found by the Government, and Government is the real owner. Under Indian conditions Company management means a division of responsibility which does not make for efficiency. Indian public opinion is overwhelmingly in favour of State management, partly because it means more higher jobs for educated Indians.

The Government have not accepted the principle of State management of Indian railways, but in 1924, when railway finance was separated from the general finances of the country, Government undertook that the arrangements for separation should hold good only so long as the E. I. and G. I. P. Railways and the existing State-managed railways remained under State management.

The Wedgewood Committee favoured management by companies domiciled in India, thus supporting the Government point of view.

A Federal Railway Authority. When the Federation is inaugurated a Federal Railway Authority will take over the railways. This Authority may become the means of realising the advantages of State management under more favourable conditions. The Wedgewood Committee recommended that the Federal Railway Authority may first tackle the State-managed Railway systems, that political and administrative interference in the management of railways should be avoided, and that the technical management of the railways should be left to the Railway Board.

Rail-road competition. Motor bus competition is keenest over short distances and, according to the railways, unfair. Control over motor vehicles has been made stricter. Road competition has 'disturbed the harmony and balance of the railway rate system'.

The utility of buses where railway service is inadequate is obvious. But it is necessary to co-ordinate both methods of transport. Both rail and road transport have their appropriate field. The problem is that of confining each to that field, and that has not yet been solved.

The following counter-measures were recommended by the Wedgewood Committee, : (1) faster passenger trains, (2) improvement of railway connections, (3) intensification of services in suitable sections, and (4) more amenities for lower class passengers who provide about 92% of the passenger revenue.

Chapter VII.—Foreign Trade and Tariffs.

Roughly, about ¾ths of our imports and ¼th of our exports consist of articles wholly or mainly manufactured.

The character of our foreign trade in the 16th and 17th centuries was essentially different The bulk of the exports consisted of cotton goods; the imports were chiefly gold and silver, a few articles of luxury and fancy goods meant for the rich, and spices.

In the past not only the balance of trade but the balance of payments was heavily in our favour. In other words, India was a creditor country and the world paid her tribute in silver and gold.

The Tariff:—Under Company rule the general rate of duty levied on imports into India was 10 per cent *ad valorem.* The 'reform' of the tariff in accordance with the principles of free trade began in 1878. The abolition of the cotton duties in 1879 met with strong opposition. In 1894 a 5 per cent duty was imposed for financial reasons on cotton goods and yarn imported into India, and a counter-vailing excise duty of an equivalent amount was imposed on cotton goods made in Indian mills. In 1896 both the duty on cotton goods and the excise were lowered to 3½ per cent. The excise was abolished in 1926.

At the outbreak of the war (1914-18) the general rate of duty was 5% *ad valorem.* Financial necessity compelled the Government to revise the customs tariff in 1916, in 1921-22 and again in 1922-23. The general rate of duty now amounted to 15% *ad valorem.*

The whole question of India's fiscal policy was examined by the Fiscal Commission of 1921-22 (see Chapter III above).

At present the general rate of the tariff is 25% *ad valorem.*

Imperial Preference. The average percentage share of the United Kingdom in our imports in the five years ending 1875-76 was 77·9, and in our exports 49·6. For 1913-14 the corresponding figures are 64·2 per cent (imports) and 23·5 per cent (exports). The decline in the share of the United Kingdom in our foreign trade was due to the growing competition of Germany, Japan and the United States.

The question of Imperial Preference was first officially considered by India in 1903. Lord Curzon's Government rejected Imperial Preference because of the danger of retaliation on the part of foreign countries. The question of making the British Empire self-sufficient was examined during the Great War. The United Kingdom adopted the policy of Preference in 1919. The Indian Fiscal Commission laid down the following three principles which were to govern the application of a policy of Preference : (*i*) no preference was to be granted without the approval of the Indian Legislature. (*ii*) no preference given was, in any way, to diminish the protection required by Indian industries, and (*iii*) preference was not to involve any appreciable

net economic loss to India. The Commission did not fail to emphasize the Imperial aspect of the question.

The Ottawa Agreement was signed in August. The Preference granted by India amounted, in most cases, to 10 per cent. In return the United Kingdom granted preference to specified Indian articles and undertook to encourage the *consumption* of Indian *cotton* in Lancashire.

The Ottawa Conference also adopted a resolution concerning industrial co-operation between various parts of the British Commonwealth. But no scheme of Imperial division of industrial activities has been worked out.

An examination of trade statistics shows that the Ottawa Agreements undoubtedly encouraged inter-Imperial trade.

The Indian Assembly voted for the termination of the Ottawa Agreement in 1936. After protracted negotiations a new agreement came into effect from 1st April, 1939. The chief features of the new agreement were the linking of the preferences for United Kingdom piece-goods with the off-take of Indian cotton by the United Kingdom on a reciprocal graduated scale ; preference for 82 per cent of Indian exports to the United Kingdom ; and a reduction from 106 to 20 of United Kingdom items receiving Indian preference.

The Indian Assembly rejected the new Agreement, chiefly because of reduction in the duty on imports of Lancashire cloth. But in the new conditions of world trade it was not possible for India to stand alone. The United Kingdom is the largest single purchaser of our goods and the British Empire takes something less than half of our total exports.

Gold Exports. Net imports of gold between 1900-01 and 1930-31 amounted to Rs. 548 crores. Of this, gold worth over Rs. 382 crores has been exported since 21st Sept. 1931.

The following advantages were claimed for gold exports : (1) Gold exports led to an improvement in Government credit. It is certain that but for gold exports exchange would have fallen. (2) Gold exports strengthened India's public reserves, through the addition of, not gold, but sterling securities to the reserves. (3) Gold exports meant the conversion of one form of reserve (gold hoarded by the people) into another (interest-bearing Government obligations). (4) Gold exports encouraged the flow of international trade. It is again certain that but for gold exports the fall in imports would have been heavier.

Much of the gold exported was 'distress' gold.

The Price of Gold. The price of gold, when there was free export and import of gold, was determined by two factors, the American price of gold and the dollar-sterling rate. In 1934 the United States devalued the dollar and fixed the price of gold at 35 dollars per oz. As there has been no devaluation of sterling, the British gold £=8·24 dollars. Suppose the dollar sterling rate is 4·12 dollars. Then the price of gold in London, other things being equal, must rise 100 per cent above the old Mint price (£ 4-4-9$\frac{3}{4}$). Likewise the Indian price must double, assuming that there is no change in the rate of rupee-sterling exchange (18d. per rupee).

Chapter VIII.—Indian Prices.

1861-1905. Prices gradually rose. This was chiefly due to the rise of the export trade. But prices were still subject to seasonal fluctuations.

1905-1914. Prices rose continuously and rapidly ('famine prices without famine'). The rise of prices was connected with the gold exchange system. Before 1893 hoarding and melting accounted for about 45-50 per cent of the coinage. When the rupee became a token coin, the melting of rupees ceased and gold was preferred for hoarding purposes. The rise of prices became very marked after 1905; in the triennium 1905-06 to 1907-08 the total net coinage of silver exceeded the total net coinage in any period of *five* years before the closing of the mints.

1914-29. All prices rose during the Great War (1914-18) but those of exports rose to a smaller extent than the prices of imported goods. The reason was shortage of imports. Currency inflation was on an extremely modest scale as compared with European countries. Prices rose to their highest point in 1920, after which they fell. The fall was due to a deliberate policy of deflation, or currency contraction.

The Great Depression. A heavy and universal fall of prices began in 1929. It was ruinous for agricultural countries particularly, as the fall of prices was greater in the case of primary products than manufactured goods. In 1930 the Calcutta index number of wholesale prices sank to 87 (1914=100).

Effect on the balance of trade There was a heavy contraction of our imports and exports. In the year 1932-33 the amount of our favourable balance of trade was only three crores. Attention has been already drawn to the net-exports of gold on an unprecedented scale, which commenced in 1931-32.

Causes of the Great Depression. The crisis was due to the action of both monetary and non-monetary factors. There is definite evidence of over-production (due, in the case of primary products,

to mechanical and biological progress). Among monetary factors, gold-hoarding by certain countries, irregular lending by creditor countries, and currency and exchange instability are important.

More than half the world left the gold standard with England (Sept. 1931). Devaluation came in the United States in 1934 and a little later in the countries of the 'Gold Block.'

Recovery. Recovery was assisted by the following factors:

(1) International and national restrictive schemes.

(2) Currency depreciation, which meant a better adjustment of the external purchasing power of money to the internal purchasing power.

(3) Re-armament.

Agricultural recovery was less marked than industrial recovery.

Relief of agricultural distress. In India generally, and particularly in the Punjab, attempts were made to relieve agricultural indebtedness without spending a pie of Government money, or almost wholly at the cost of the creditor. In other countries the plans for the adjustment of debts 'involved the Governments in financial operations often on a large scale.'

Sig. Constanzo divides the States into three groups: (1) States that took radical measures aiming directly at relieving the farmers from the burden of their debts; (2) States that endeavoured to assist debtors without affecting the interests of creditors, and (3) States that helped the debtors mainly by indirect means without violating the principle of respect for obligations incurred.

Radical measures 'usally had results contrary to what was hoped from them.' Sig. Constanzo concluded that the results of drastic public interference in debtor and creditor relations were 'regrettable;' it is advisable to assist debtors 'without too greatly sacrificing the creditors'. He also considered it essential 'to go to the root of the evil,' that is to raise agricultural prices to a remunerative level.

Agrarian Legislation, Punjab. This comprises the following Acts:

(1) *Regulation of Accounts Act, 1930.* Under this Act it is the duty of the creditor to record and maintain accounts in the prescribed manner.

(2) *The Relief of Indebtedness Act, 1934.* This Act (*i*) simplifies insolvency procedure; (*ii*) prescribes the maximum rates of interest (or secured loans 12 per cent simple interest, and on unsecured loans $18\frac{3}{4}$ per cent simple interest), (*iii*) makes provision for the setting up of Debt Conciliation Boards, and (*iv*) applies the principle of *damdupat* to agricultural loans.

(3) *Debtor's Protection Act, 1936.* Under this Act the Deputy Commissioner is to determine how much of the land of a judgment debtor is to be attached and alienated and for what period, not exceeding 20 years.

(4) *Amendment II to the Alienation of Land Act, 1901,* declares *benami* transactions invalid. The person dispossessed can claim compensation for improvements, but not exceeding the value of the original transaction.

(5) *Amendment III to the Alienation of Land Act* prevents the acquisition of the land of the debtor by the Zamindar creditor in satisfaction of his claim.

(6) *The Registration of Money-Lenders Act* requires all money-lenders to get themselves registered and to hold a licence. A licence may be cancelled for a specified period for specific reasons of fraud or dishonesty.

(7) *The Restitution of Mortgaged Lands Act* extinguishes mortgages effected before the commencement of the Alienation of Land Act.

In the Punjab Agrarian legislation had an undesirable communal bias. It should hasten the process of swallowing up of the smaller by the bigger, non-working landowners. It led to a restriction of agricultural credit.

In other provinces in addition to the control of money-lending, measures were taken to protect tenants, against the action of landlords, (e.g., Bihar and the United Provinces). Tenancy legislation is long over-due in the Punjab.

CHAPTER IX.—Currency and Exchange.

1835-1893. Before 1835 a great variety of gold and silver coins circulated in different parts of the country. No less than 27 varieties of rupees were current in Bengal. The circulation of several denominations of coins, whose value was constantly fluctuating, caused great inconvenience to the trading community. In 1835 the East India Company made the silver rupee of 10 grains troy weight, $\frac{11}{12}$ fine, the standard throughout British India.

In the same year, by the same Act, gold ceased to be legal tender. The coinage of gold, however, continued, and by a proclamation issued in 1841 public treasuries were authorised to receive gold coins. Gold tended to accumulate in public treasuries, and the proclamation of 1841 had to be withdrawn in 1852.

The fall in the price of gold consequent upon the discoveries of gold in Australia and California in 1849 increase the demand for a gold currency. Sir Charles Trevelyan supported this demand. The

Secretary of State, however, was not in favour of making the sovereign legal tender, but he permitted public treasuries in 1864 to receive and pay out sovereigns and half-sovereigns for ten and five rupees respectively; the rate was raised to Rs. 10-8 and Rs. 5-4 in 1868. Soon after the price of silver began to fall and the controversy regarding the introduction of a gold currency ended.

The fall in the price of silver was probably due to the appreciation of gold—gold production between 1873 and 1899 declined, while the demand for gold for industrial and monetary purposes increased. The fall in the gold value of the rupee (*i*) increased the burden of the Home Charges, (*ii*) tended to check the investment of foreign capital in India, (*iii*) lowered the value of the salaries, paid in rupees, of the European employees of the Government, and (*ii*) made foreign trade a gamble in exchange.

The fall in the gold value of the rupee, by itself, should have subsidized exports and penalised imports. But between 1873 and 1895 imports increased more rapidly than exports. This was due to the heavy fall in gold prices in this period.

1893-1925. Attempts to stabilize the price of silver by international agreements having failed, the Government of India, on the advice of the Herschell Committee, closed the mints to the free coinage of silver in 1893. The idea was to raise exchange to 16*d*, and to stabilize it at that rate by 'starving the circulation.' After falling to 12⅜*d.* in January 1895 exchange gradually rose to about 16*d.* in 1898. The Fowler Committee re-examined the whole question in 1898. It recommended the adoption by India of the gold standard 'with its normal accompaniment', a gold currency. The sovereign was to be made legal tender at Rs. 15 and a mint was to be opened in India for the coinage of gold. Profits on rupee coinage were to be credited to a special reserve, called the Gold Standard Reserve. The Fowler Committee rejected Mr. Lindsay's plan, the Gold Exchange Standard.

Eventually, while the sovereign was made legal tender, no gold mint was established. Our currency system developed along the lines of the gold exchange system between 1907 and 1914.

An exchange crisis occurred in 1907-08 and in November of that year exchange fell below specie point. Exchange improved as soon as Government began to sell sterling bills on London and give gold for export. Very little gold came out of circulation for export in the crisis. The chief lesson taught by the crisis was that for the maintenance of exchange it was essential to maintain a strong gold reserve and to know how to use it; gold in circulation was of little use for the purpose.

The Chamberlain Commission (1913) found that " It would not be to India's advantage to encourage the use of gold in the internal circulation." They recommended that Government should make a public notification of their intention to sell sterling bills in India at 1*s*. 3 $\frac{29}{32}$*d*., whenever asked to do so, to the full extent of their resources. The stability of exchange was thus to be guaranteed.

The rise in the price of silver during the war (1914-18) put an end to the gold exchange system. The rupees ceased to be a token coin. The increase in the cost of production of rupees compelled the Secretary of State to raise the price of rupees. A contributory cause of the rise in exchange was the strong demand for rupees abroad owing to the heavy balances of trade in Indian's favour.

When a silver token has ceased to be a token coin, it may be made a token coin again by (*i*) a reduction in the weight or fineness of its silver content or (*ii*) raising its gold value. The Babington Smith Committee of 1919 recommended the latter course. Government attempted to stabilize the rupee at 2*s*. gold in 1920, and later at 2*s*. sterling. But the attempt failed, in spite of the sale of Reverse bills to the amount of £55,000,000 in 1920, sometimes at rates very much higher than the market rate. The fall in exchange in 1920 was due to the heavy fall in the price of silver as the rise during the war was due to the rise in the price of silver. A contributory cause of the fall was the adverse balance of trade in 1919-20 and 1920-21.

Exchange continued to fall till 1922. It began to rise in 1923, and the average rate in the first 9 months of 1925 was 18*d*. gold. England returned to the gold standard in 1925.

The Gold Bullion Standard. The chief feature of the gold bullion standard (recommended by the Hilton Young Commission of 1925) is the convertibility of token money directly into gold bullion for all purposes—in theory. In actual practice the rupee will be convertible into gold for export only. The rate for the sale of gold by the Reserve Bank will be so fixed as to make it unprofitable to demand gold from the Bank except for monetary purposes. If the exchanges are stable, the Reserve Bank will not be called upon either to buy or to sell gold. In fact, the gold reserves of a Central Bank are not meant to satisfy the non-monetary demand for gold.

High currency authorities of the country submitted a Memorandum to the Hilton Young Commission in which they drew attention to the main defects of the pre-war currency and exchange system. Some of these defects were removable : (*i*) the rupee was linked to sterling only and the system ceased to be a gold exchange system as soon as sterling depreciated, (*ii*) Government were under no statutory obligation to sell gold or gold exchange at a fixed rate at a time of exchange

weakness, and (*iii*) the currency and banking reserves were controlled by different authorities. But there were two other defects which could be remedied only by the adoption of the gold bullion or the gold currency standard : (1) the gold exchange system breaks down when the price of silver rises above the bullion par of the rupee, and (2) rupee circulation was not automatically reduced when Reverse bills were sold, but such decrease depended on the action of Government. It was argued in the Memorandum that the gold bullion standard was the ideal system, but that in India a full legal tender metallic currency was indispensable : "If therefore a gold currency is not introduced, defects in the Indian currency and exchange system must remain indefinitely." A practical scheme for the introduction of the gold currency standard by stages was outlined in the Memorandum. But the scheme was rejected by the Hilton Young Commission.

The 18d. Gold Rate. The Hilton Young Commission recommended the fixation of exchange at 18d. gold. The recommendation was given effect to in 1927. But, as is quite evident now, the rupee was considerably over-valued at this rate.

It is true that the gold value of Rs. 1500 at 16d. per rupee is equal to the gold value of Rs. 1333 at 18d. But all values for the cultivator are not gold values (*e.g.*, the price of bullocks, the water-rates and the land revenue, payment for the services of village menials). The extra Rs. 167 mean greater purchasing power for the cultivator.

It was thought that at 18d. gold Indian prices and costs had become adjusted to world prices and costs. That was the main argument of the Hilton Young Commission. But the Commission made no study of price fluctuations in the case of individual commodities. The Commission confined their examination to a study of index numbers of prices. Their examination showed that "from October 1924 to September 1925 there was a rapid and violent downward movement of the rupee level which was not the reflection of any similar movement in world prices." But world gold prices did not remain stationary during this period. Prices in the United States in Sept. 1925 were the same as in January, but in 12 countries of Europe (including the United Kingdom) out of 14 there was a fall in gold prices. The explanation of the fall is 'increasing economic stagnation in most of the European countries' in contrast to the favourable conjuncture in the United States. Prices had been rising in 1924, and the rise was partly speculative. The fall of prices in 1925 was in some measure due to the reaction against inflated prices and mainly to increased production.

The downward movement of Indian prices was in sympathy with the world gold prices. In these circumstances all talk of adjustment of rupee prices to the 18d. gold rate was meaningless.

Prices continued to fall after 1925, and the astonishing thing is that when we left the gold standard on Sept. 21, 1931, there was no rise of prices corresponding to the depreciation of the rupee in terms of gold. Prices did rise at first, but they fell again.

It is admitted that England's return to the gold standard in 1925 was a mistake. We made a greater mistake in stabilizing the rupee at a rate higher than our pre-war gold parity.

At present India is under the sterling exchange standard, which will be turned into the gold exchange standard (or the gold bullion standard) when England returns to gold.

Chapter X.—Banking.

The Indian money market consists of indigenous as well as foreign elements. The village money-lender, the private banker in towns and shroffs in the Presidency towns form the foundation of the Indian credit system. On this foundation there has been erected a Western superstructure of credit.

The Exchange Banks finance our export and import trade, besides doing ordinary banking business. They collect on maturity the bills drawn on Indian importers for goods purchased by them. With the proceeds of these bills and the deposits received by them in India, the Exchange Banks purchase the exporters' bills offered to them. They add to their funds by selling sterling to the Government.

The growth of Indian Joint-stock banks has been rapid, but banking facilities are inadequate. The total number of offices and branches of all banks at the present time is probably well under 3,000. This may be compared with 15,000 banking corporations in the United States in 1938.

The village mahajan finances (*i*) agricultural operations, which is financing industry and (*ii*) trade, which is a commercial function. Hundis are used in the internal trade of India. A considerable portion of the business of Indian banks consists in making advances against Hundis. The shroffs in the Presidency towns purchase Hundis on their own account.

The Reserve Bank. Before the constitution of the Reserve Bank the Imperial Bank of India served as a kind of Central Bank. The Imperial Bank was founded in 1921 by amalgamating the three Presidency Banks.

The Reserve Bank commenced operations from 1st April, 1935. The Bank is a shareholders' bank (the country would have preferred

a State Bank), with a share capital of 5 crores, divided into fully paid-up shares of Rs. 100 each. The Central Board consists of a Governor and two Deputy Governors appointed by the Governor-General in Council, 4 Directors nominated by the Governor-General in Council, 8 Directors elected on behalf of the shareholders, and one Government official nominated by the Governor-General in Council.

The Bank may purchase, sell and re-discount bills of exchange and promissory notes (*a*) drawn and payable in India, maturing within 90 days and arising out of *bona fide* commercial or trade transactions, (*b*) drawn and payable in India, maturing within 9 months, drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and (*c*) drawn and payable in India, issued or drawn for the purpose of holding or trading in the securities of the Government of India, or a local Government, or specified securities of States. In each case one of the signatures must be that of a 'Scheduled' bank.

The Bank may not (1) engage in trade or otherwise have a direct interest in any commercial, industrial or other undertaking, (2) purchase its own shares or the shares of any other bank or company or grant loans upon the security of any such shares, (3) advance money on mortgage of immovable property, (4) make unsecured loans or advances, (5) draw or accept bills payable otherwise than on demand, and (6) allow interest on deposits or current accounts.

The Bank has been entrusted with the management of public debt and with the issue of new loans. It has taken over the note-issue from the Government of India. The Issue Department is wholly distinct from the Banking Department. Of the total amount of assets of the Issue Department, 40 per cent shall consist of gold bullion or sterling securities. Of the assets in the form of gold or gold coin, 85 per cent shall be held in British India. The reserve requirements may be suspended temporarily on the payment of a tax by the Bank upon the amount by which the holding of gold coin, gold bullion and sterling securities is reduced below the prescribed minimum.

Every 'scheduled' bank shall maintain with the Reserve Bank a balance the amount of which shall not any day be less than 5 per cent of its demand liabilities and 2 per cent of its time liabilities in India. As a compensation for this obligation imposed on 'scheduled' banks, the Reserve Bank will rediscount bills of exchange and promissory notes only for the 'scheduled' banks.

The Bank will ordinarily only rediscount bills and promissory notes, but the power of direct discount, or open market operations, has not been withheld from it.

The rediscount facilities which the Bank provides are expected to impart a considerable measure of elasticity to the Indian credit system. In addition, the Bank is authorised to make loans and advances repayable on demand, or, within 90 days, against the security of promissory notes of any 'scheduled' bank or provincial co-operative bank on certain conditions.

Indian joint-stock banks hold a comparatively small amount of bills. To encourage the use of bills the Banking Enquiry Committee recommended, among other things, a lowering of the stamp duty on bills, and standardization of customs governing the Hundis .

In regard to exchange, Section 40 of the Reserve Bank Act imposes an obligation on the Reserve Bank to sell sterling at a rate not below 1s. 5 49/64d. per rupee. It is the duty of the Reserve Bank to prevent exchange from falling below the lower specie point.

Applicability of the theory of central banking to India. While India has a Central Banking structure like other countries, central banking has not the same meaning here as in England or the United States. This is because credit is not a price-determining factor in India—prices are determined by the volume of currency (rupees and notes). The co-efficient of correlation between deposits and wholesale prices in India for the period 1930-38 is *minus* 0·13. Even the strictest control over the scheduled banks would not give the Reserve Bank control over prices so long as direct and intimate connection is not established between joint-stock banks and indigenous bankers financing agriculture. Our money market consists of almost independent, un-co-ordinated parts.

The Reserve Bank and Indigenous bankers. The problem of linking indigenous bankers with the Reserve Bank has received attention. But indigenous bankers do not seem willing to accept the conditions proposed by the Reserve Bank: (1) they must confine their business to banking proper; (2) they must maintain proper accounts and have them audited by registered accountants; (3) they must file with the Reserve Bank the prescribed periodical statements; and (4) the Reserve Bank will have the right of regulating the business of the bankers on banking lines.

CHAPTER XI.—The Financing of Industry.

The Managing Agency System. We have no industrial banks. Industries are largely financed by managing agents. Bombay

owes much of its industrial development to this system. In Bengal the system prevails in jute, cotton, coal and tea industries.

The drawbacks of the system are: (1) some managing agents trade and speculate, and when speculation goes wrong, their financial weakness reacts on their concerns; (2) sometimes the managing agents turn their loans into debentures, with the result that the mills pass into their hands and the shareholders lose all their capital; (3) in bad times the managing agents are unable to find more money.

The Central Banking Enquiry Committee (1929) suggested that industrial enterprise in India should be made less dependent on this system. No action has been taken on the recommendations of the Committee regarding the establishment of provincial industrial banking corporations; the foreign experts favoured an All-India Industrial corportion. No State Exchange bank has been established either, as recommended by the Banking Committee.

State-aid in Japan. Capitalism in Japan has not grown from bottom upwards, rather it has been forced from top downwards. The State gave all possible assistance in the industrialisation of Japan. The Bank of Japan, Japan's Central Bank, is described as the 'backbone' of Japanese banking in the financing of industry. The Industrial Bank of Japan, founded in 1902, is specially concerned with the financing of industry. There are other industrial banks; the resources of Trust Companies, controlled by a small number of Japanese families, are also employed in the financing of industry.

The German system. Before 1931 Germany had only 'universal banks', undertaking all kinds of banking business; there was no specialization. Long-term loans were made to industries under the forms of short-term credit. German banks have taken a leading share in the foundation of new enterprises and in the development of industry generally. The close connection between banks and industry took the form of a 'personal union', from which resulted the interlocking of industrial and financial capital.

The French system. The process of industrial finance comprises two phases. Banks extend credit (as in Germany) to a new or old firms, either singly or joined together in a syndicate or Konsortium, and for this they receive shares and a certain right of control over the firm concerned. After a few years, when the firm begins to show profits, the second phase begins—the offer of stocks and shares for public subscription. The capital advanced is thus recovered, and it becomes available for other ventures. The unsold issue is divided among the members of the syndicate or Konsortium.

The conditions for successful industrial finance are : (1) capital should be available for investment, (2) the public should be investment minded, (3) banks should enjoy public confidence : and (4) the general political and economic conditions must be such as to make investment profitable.

CHAPTER XII—The Financing of Agriculture.

Agriculture cannot expect to have the same credit facilities as manufacture for the following reasons :

(1) Agriculture is 'scattered, individualistic, small-scale, and chaotic' ; (2) agricultural operations cannot be mechanised like manufacturing processes ; (3) the factor of weather is not under human control ; (4) agricultural production cannot be easily increased or curtailed according to the rise or fall of prices ; (5) the nature of farm economy develops social characteristics and habits of mind which are an obstacle to corporate effort.

Indian agriculture is subject to special handicaps : (1) the average holding is small in size, (2) the holdings are scattered, (3) yield per acre is low, (4) the cultivators are ignorant, and (5) thay are heavily indebted.

Co-operative credit. The establishment of agricultural banks was recommended by the Famine Commission of 1901. The *sowcar* tended to grossly abuse his power.

The Co-operative Credit Societies Act was passed in 1904 and amended in 1912. The amended Act covered Co-operative societies established for production or other objects (*i.e.*, non-credit societies), divided societies into those with limited and those with unlimited liability (agricultural societies as a general rule were to be with unlimited liability), permitted certain unlimited societies to distribute profits and made provision for the higher finance of the movement

The first registrar in the Punjab sought to promote two types of societies, the 'money-deposit type' which had no share capital but operated with fixed deposits, and the 'Mianwali type.' whose capital was raised by grain subscriptions. Both these types had eventually to be discarded. The type of society which became popular in the Punjab was one adapted from the Italian system ; members become shareholders by payment of 10 compulsory annual instalments. No dividends are declared for 10 years when three-quarters of the profits are divided among the shareholders, the remaining fourth being transferred to the reserve fund.

Since 1904 the co-operative movement has made remarkable progress in India, In 1939-40, the total number of co-operative societies was over 1⅓ lakhs, the number of members about 61 lakhs and

the working capital 107 crores. But co-operation has yet touched only the fringe of the problem of indebtedness. In India as a whole the proportion of rural families affected is 5 or 6 per cent.

The Great Depression. The progress of the movement ceased when agricultural prices fell. Over-dues began to accumulate and the assets of societies froze. The situation was examined by the Reserve Bank (Agricultural Credit Dept.) and the following suggestions were made for improvement :

(1) loans must be limited to cultvation finance ; (2) there should be no over-lending ; (3) except in certain cases, loans should be recovered in equal instalments in two years ; (4) loans should be made in instalments, not in one lump sum.

The Multi-purposes Society. This society not only grants credit but assists the cultivator in all other ways (*e.g.*, co-operative sale, better-living, agricultural improvement, consolidation of holdings, etc.) The Agricultural Commission favoured the single-purpose society ; the multi-purpose society is the basis of the Reserve Bank's scheme of rehabilitation.

Land mortgage banks. These banks make large loans for periods up to 20 years for (*a*) the redemption of land and houses and the liquidation of old debts ; (*b*) the improvement of methods of cultivation and building of houses, and (*c*) the purchase of land in special cases.

The first land mortgage bank was organised in 1920 in the Punjab (Jhang) but the real beginning of land mortgage banking was marked by the establishment, in 1929, of the central Land Mortgage Bank in Madras with Government support,

The land mortgage banks have been concerned too much with the redemption of old debts and too little with the improvement of agriculture.

Agricultural Non-Credit Co-operation. The chief forms are : (*i*) co-operative marketing, (*ii*) better living and better farming societies, (*iii*) consolidation of holdings societies, and (*iv*) health co-operative societies. The miscellaneous types include cattle-breeding. crop-protection, joint-cultivation, irrigation, drainage, arbitration, etc.

Urban Co-operative Movement. The chief forms of urban co-operation are : (*i*) credit societies and banks, (*ii*) employees' societies, (*iii*) consumers' co-operative stores, (*iv*) artisans and weavers' societies, (*v*) milk unions and societies, and (*vi*) miscellaneous types, which include insurance, housing etc.

Co-operative Trends. A study of the trend of the co-operative movement between 1907-08 and 1939-40 does not suggest that

co-operation would solve the problem of indebtedness within a reasonable period of time.

CHAPTER XIII—Central and Provincial Finance.

The study of Indian finance since 1913-14 may be divided into three periods : (1) Pre-Reforms, 1913-14 to 1920-21. (2) Reforms Period, 1921-22 to 1935-36 and (3) Era of Provincial Autonomy since 1936-37.

Pre-Reforms Finance. This includes the War period. Between 1913-14 and 1920-21 Indian revenue increased from 128 crores to 215 crores (68%) and expenditure from 124 crores to 241 crores (94%).

There was little increase in land revenue receipts. But the Customs revenue increased from 11⅓ crores to 32 crores and the yield of the Income-Tax from 3 crores to over 22 crores in this period. Military expenditure increased from about 30 crores to 87½ crores. The greater part of the increase in military expenditure took place after the Great War had ended,

Reforms Period, 1921-22 to 1935-36. The Montague-Chelmsford reforms led to important financial changes in the relations between the Centre and the Provinces. The divided heads of revenue and expenditure were abolished. Land revenue, irrigation, stamps and excise were made wholly Provincial and the income-tax wholly Imperial. As a result of this change a large deficit in the Indian budget was anticipated. This was made good by Provincial contributions (983 lakhs in 1921-22), which were gradually reduced and finally abolished in 1928-29.

The Reforms period began inauspiciously. The deficits, in fact, had started much earlier, in 1918-19, and ended only with the year 1923-24. The deficits were met by the issue of fiduciary currency. A Retrenchment Committee appointed in 1922 recommended heavy cuts in expenditure, and there were additions to taxation. A surplus was realised in 1923-24 and thereafter, till the advent of the trade depression, there were only minor changes in the tax system. The financial situation before the trade depression could be described as eminently satisfactory. Financial stability had been attained in spite of heavy sacrifice of revenue on the part of the Government of India (cotton excise 1¾ crores, opium 1½ crores, import duty on machinery 85 lakhs, and Provincial Contributions about 10 crores).

The effects of the trade depression were felt in the budgets, for 1929-30, and 1930-31, but the full effects became apparent only at the end of Sept. 1931, when a supplementary budget, covering the whole year 1932-33 and proposing heavy additions to the burden of taxation, had to be introduced. Financial stability was regained and

the budgets for 1933-34, 1934-35 and 1935-36 were balanced with only minor changes in the tax system.

Provincial Finance: The Niemeyer Award. Sir Otto Niemeyer reviewed 'the present and prospective budgetary position' of the Central and Provincial Governments before the inauguration of Provincial Autonomy. On the whole he took a favourable view of the financial situation. Given prudent management of finances, he thought that adequate arrangements could be made to meet the financial implications of the new Constitution.

Certain Provinces needed assistance. Irrespective of the allocation of taxes on income, Sir Otto recommended assistance to the Provinces amounting to 450 lakhs annually. Further, Sir Otto recommended the cancellation of all debt contracted with the Centre, prior to 1st April 1936, of the following Provinces: Bengal, Bihar, Assam, N.-W. F.P. and Orissa. In the case of C.P. about 2 crores of pre-Reforms debt was cancelled. The jute-producing Provinces were already receiving 50 per cent of the net produce of the Jute Export Duty. Sir Otto recommended an increase of 12½% in their share.

The Income-Tax. Of the total receipts amounting to about 16 crores in 1936-37 from all forms of income-tax (including Corporation Tax) Sir Otto fixed 12 crores as the amount divisible between the Centre and the Provinces. Of this 6 crores was to go to the Provinces.

Working of Provincial Autonomy. The general conclusions on the working of Provincial Autonomy may be summarised as follows:

1. In a technical sense the aim of the Niemeyer Report and Award was achieved. The state of chronic deficit in which certain Provinces had fallen was ended; financial stability was attained.

2. There is no major Province in which increased spending power is not being utilised for the expansion of constructive, nation-building activities. In every Province there is a keen desire to promote the well-being of the rural masses and to augment of the sources of wealth-production in order to increase the income of the people. This task is being attempted in each Province within the limits of the resources of the Province.

3. But very little could be done to reduce the burden of rural taxation.

4. While the attempt to increase the income of the people by the improvement of agriculture and the marketing of agricultural produce deserves all praise, the main source of the agriculturist's income is the prices at which his crops are sold, and prices are beyond the control of Provincial Governments.

5. Cottage industries are being promoted in all Provinces, but they have little chance of survival in competition with machine industries. The development of factory industries depends on conditions determined by the Government of India.

6. The problem of indebtness of the peasantry remains unsolved.

7. There is no Province which could not usefully increase its expenditure on nation-building activities, on relieving indebtedness, and in reducing the burden of rural taxation. But no important new sources of revenue have been discovered. The main existing sources of Provincial revenue are largely rigid and inelastic.

8. Expenditure, like revenue, is largely inelastic, the scope for retrenchments being very restricted.

Direct Taxes. *The Income-tax.* The substitution of the 'slab' for the 'step' system is an important measure of reform. Under the 'slab' system the first slice of income, Rs. 1,500 is tax-free ; on the next three successive slices of Rs. 3,000, 4,000 and 5,000 the rate of tax is, respectively, 9 pies, 15 pies and 2 annas per rupee. The balance is taxed at 2½ annas per rupee. As a result of the introduction of this system the percentage of income taken rises gradually throughout the whole range of incomes taxed (not by steps as under the 'step' system) and the upper grades of income pay a higher percentage of income as tax than under the 'step' system.

In regard to the taxation of foreign income of residents in British India, the accrual basis has been substituted for the old remittance basis.

The Land Revenue. Is the land revenue a tax or a rent ? Indian rulers recognized the right of property in land. The land revenue under Hindu or Muhammadan kings was not a rent paid to the State-Landlord but a tax. But as a tax it was so heavy as to be equal to an extreme rent. Our British rulers mistook it for rent. The Indian Taxation Enquiry Committee (1924-25) rejected the theory of State Landlordism.

The Taxation Enquiry Committee drew attention to the serious defects of the land revenue system : (*i*) the incidence of the land revenue on different holdings varies greatly ; (*ii*) there is no definite basis of assessment—it may be rentals or 'net assets'; (*iii*) the rentals may be customary, controlled or assumed ; the net assets may include or exclude the subsistence of the cultivator ; (*iv*) viewed as a scheme of taxation, the land revenue 'is not only not progressive but actually tends in the opposite direction' ; (*v*) only a very small proportion of the tax collected from the cultivator is used for rural development—in European countries the land tax is largely used for local purposes.

The Taxation Enquiry Committee made two definite suggestions : (1) the standard rate of assessment should not exced 25 per cent of 'annual value', and (2) 'annual value' was to be interpreted to mean 'the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family on the holding, and the return for enterprise'.

Land Revenue in the Punjab. In the Punjab the land revenue is treated, not as a tax on agricultural income but as the State's share in the net profits of cultivation, or 'net assets'. Net assets are defined as landlords' net assets, of which one-fourth is the State's share.

The calculation of the State's share on the kind rent basis is as follows : From the total estimated value of the gross produce of an assessment circle (assumed to be held by landlords), menials' dues are deducted first. Of what is left, one-half is the landlord' share. From the landlords' share two further deductions are made, half water-rates and half cost of seed (Lyallpur District). To what is left, half land revenue, *malikana* and cesses are added (since these charges are paid half and half by landlord and tenant). The resulting sum is true landlords' net assets. The incidence per cultivated area is found by dividing the total land revenue (one-fourth of landlords' net assets thus calculated) by the figure of cultivated area.

According to law the average rate of incidence on the cultivated area shall not exceed the rate of incidence imposed at the last settlement by more than 25 per cent.

The definition of net assets as landlords' net assets assumes that peasant proprietors' net assets are identical with landlords' net assets. That would be so if the share left to tenants was sufficient to defray the tenants' cost of cultivation, including their wages and the normal return for enterprise. Landlord's net assets are not the true economic rent of land. They contain a large element of loot and Government's land revenue is a share of this loot. It is unjust to tax peasant proprietors at a rate derived from landlords' net assets.

The Sliding Scale. Under the old system revenue rates were fixed in accordance with average prices of agricultural produce over a long period (the preceding 20 years) and it was assumed that there would be no large variation in prices throughout the period of settlement. Under this system the peasant stood to gain when the average level of prices rose above the prices assumed for assessment purposes.

The heavy fall of prices after 1929 made the old system unworkable. For it was found that the average prices of the preceding 20 years were 55 per cent higher than actual prices at the assessment of the Lyallpur district.

Under the sliding scale the standard demand is still calculated according to the assumed commutation prices, which are much higher than actual prices, but remissions are granted every year. In granting remissions three factors are taken into account: (*i*) the percentage of the total matured area under each important crop, (*ii*) the average yield per acre of each of those crops, and (*iii*) the commutation price assumed for each of those crops. From year to year there is not likely to be any material change in the first two factors and thus the amount of the remission is solely determined by the percentage fall of prices as compared with the commutation prices.

The sliding scale assumes that the zamindar always enjoys net assets, provided that the fall in prices is not exactly 100 per cent. But if the price of wheat, for example, fell by 80 per cent, would the cultivation of wheat show any net assets at all ? When prices fall heavily, net assets, may wholly vanish. This is because costs never fall in the same proportion as prices.

The result of the comparative inelasticity of costs is that net assets fall in a heavier proportion than prices. Unless remissions are granted according to the fall in net assets (*i.e.*, after taking the variation in cost into account), the sliding scale is no boon to the working peasant.

Taxable Capacity. The taxable capacity of a people is the maximum amount that they can contribute towards the expenses of the state. It is found by deducting from their total income from all sources the minimum amount required for consumption, for replacing worn-out capital, and for new additions to capital.

An international comparison of tax burdens is difficult. For example, (*a*) the economic organisation of agricultural and industrial countries is different ; (*b*) the systems of taxation may be different—our land revenue is a peculiarly Indian product ; (*c*) the levels of income in different countries are never the same. Finally the burden of taxation also depends on such factors as : (*i*) the objects on which the income of the State is largely spent, and (*ii*) the spending of a material proportion of the taxes in a foreign country.

PART II.—WAR ECONOMY

CHAPTER I—Finance

Provincial finance. Bengal is to get a subvention from the centre of Rs. 10 crores in 1943-44 and also in 1944-45 to meet abnormal expenditure due to famine and other causes. Excepting Bengal, provincial finance is in a prosperous condition—"the face of

heaven" is shining upon provincial finance more favourably (Sir Manohar Lal). The anticipated revenue shows increases, as compared with 1939-40, varying between 37 and 89 per cent in different provinces. Provincial receipts have increased largely on account of the rise of agricultural prices. All provinces have benefited by larger war orders for small-scale industries. The divisible pool of the Income-tax has risen from Rs. 6 crores to no less than Rs 56¼ crores (1944-45).

The increase in expenditure is accounted for mainly by additional police, civil defence measures and dearness allowance.

Central Revenue and Expenditure. Defence expenditure has grown from 46 crores (1938-39) to 277 crores (1944-45). The proportion of total revenue to total expenditure is about 79 per cent at present.

Central Revenue. The yield of taxes on income has enormusly increased, the central excise duties bring in about 25 crores, but the Customs revenue has contracted. The proportion of taxes on income to total tax revenue has risen from about 24% in 1939-40 to over 61 %.

The Gap. More than half of our war-expenditure is incurred on account of the British and Allied Governments. The expenditure debitable to the Indian budget is met by taxation and borrowing, but purchases on behalf of the British and Allied Governments have been paid for by the issue of notes against sterling securities. In March, 1943, the Government of India were not aware that the financing of war expenditure in that way led to credit inflation but in March, 1944 the Government became conscious of the dangers of inflation. A statement by 20 Indian economists in 1943 insisted that inflation in India was 'a deficit-induced, fiat money inflation,' and called for, among other things, heavier direct taxation, schemes of compulsory saving and a rigid control of all investment outlets. The income tax rates were increased in the budget for 1944-45 and certain anti-inflationary measures were adopted (Excess Profits Ordiance ; control of capital issue ; schemes to popularise war loans).

Expansion of note-circulation. The note-circulation has been increasing steadily and continuously since October, 1941 and a straight line faithfully represents the trend ($y=567{\cdot}83+21{\cdot}79x$). In the absence of measures to control the rise of prices one should have cheerfully contemplated the prospect of about a six-fold rise of prices with a note-circulation amounting to 1,000 crores ($y=189{\cdot}33-{\cdot}3419x+{\cdot}0007315\,x^2$).

The Reserve against the note-issue. The expansion of the note circulation has taken place against sterling securities, but, on

some occasions, when there was a decrease in sterling securities, an increase in rupee securities made it possible to issue more notes (February-March, 1942).

The Non-monetary Gap. In explaining the rise of prices the gap between production and consumption is of far greater significance than the monetary gap. We may distinguish between two stages of inflation. In the first stage, inflation is an expression of increased demand for goods and services—a means employed to effect the diversion of supplies from civil to military purposes. In the second stage, there is loss of confidence in the currency, the velocity of circulation increases and money acts directly on prices. In India there is no question of loss of confidence in the currency—the greatest rise of prices coincided with Allied victories. The problem of the rise of prices in the first stage is essentially a problem of scarcity. Inflation does not explain deaths by starvation. We must not mistake the symptom for the disease.

Rise in the price of wheat. Exports of wheat increased from India as the Near East could not be supplied from Australia on account of lack of shipping. The demand in India increased on account of the military and the civil population.

Rice. There is evidence of a definite shortage of supplies on account of the cessation of Burma imports and other causes. "The scarcity of supplies of rice and wheat due to these factors, raised their prices to abnormal levels and wheat prices were centrally controlled at more than double the pre-war prices." (*Review of the Trade of India*, 1941-42).

Cotton Cloth. Net imports of cloth were replaced by net exports and an increasing volume of orders was placed by the Government of India and the Eastern Group Supply Council with Indian textile mills. The pressure of war orders was so great that several mills were working exclusively on Government account.

The rise in general prices. The annual average index number (July 1914=100) for 1943 is 307. The greatest rise seems to have occurred in the case of food articles and metals. The rise in wholesale prices and the cost of living in India has been greater than in the principal belligerent countries.

Effects of the rise of prices. The 'fixed incomist' is a heavy loser. The rise in the prices of primary products has lightened the burden of rural debts and Government dues for the agriculturist. Food prices have generally risen more sharply than the prices of manufactured goods which largely enter into the consumption of the rural masses. The greatest gainer by the rise of prices is the non-working landlord. He pays no excess profits tax either.

Railways. The improvement in railway revenues is phenomenal. The anticipated surplus in the railway budget (1944-45) is no less than 52 crores (4 crores in 1939-40). The improvement is partly due to the increase in railway freights and fares in 1940, but chiefly to increase in traffic due to the war. Military traffic has increased enormously. The road competition has slackened. The development of indigenous industries has also contributed to the rise in railway earnings.

The Convention of 1924. The railway Convention of 1924 has ceased to operate from 1st April, 1943, and the old position has been restored. The Convention was inelastic. In peace-time the Railways had to raid their Reserve to pay their fixed contribution (6 crores) to the Central Government; at present they are able to pay much more. Thus the Convention failed both in peace-time and war-time.

Chapter II—The Money Market.

Monetary conditions are easy on account of the abundance of 'created money.' Demand liabilities of scheduled banks have increased abnormally. The proportion of cash and balances with the Reserve Bank to demand and time-liabilities has fallen, and there is also a heavy fall in the proportion of bills and advances to the total demand and time liabilities. It is probable that banks are making larger investments in Government securities than before.

Contemplated banking legislation. 'Created money' has stimulated the growth of banks. The Ordinance relating to capital issues applies to new banks as well, but special banking legislation is also under contemplation. The proposals are: (1) a banking company shall have Rs. 50,000 as minimum paid-up capital before commencing business; (2) the subscribed capital, and the paid-up capital shall not be less than half of the subscribed capital; (3) the capital structure must be such as to allow voting rights in proportion to the capital contributed by each class of shares.

Branch-banking. As compared with 31st December, 1939, there was an increase of over 300 branches in 1943.

Demand and time Liabilities. A proportion of about 75% for demand liabilities to total deposits must be considered abnormal. Deposits have increased on account of increased disbursements by the Central Government, ('created money'), and those who benefit by this expenditure want their money to be readily available. There is thus increased liquidity preference due to the war.

Accumulation of sterling. In June, 1944, the Reserve Bank (Issue Dept.) held securities of over 800 crores. (The total amount of sterling held by the Reserve Bank slightly exceeds Rs. 1,000 crores.) Britain and her Allies did not pay for what they bought in gold, but

in sterling securities. Another alternative was the raising of loans in India on behalf of the foreign countries concerned. The easiest method of obtaining the finance required was adopted—the issue of notes against sterling securities.

Gold sales. Gold sales to finance war purchases began in August, 1943. It is estimated that 3½ million *tolas* of gold have been sold. The gold has been sold at the Indian price, which is considerably higher than the world price. The resulting profit has been shared between the British and American Governments.

Repatriation of Sterling Debt. The Sterling debt was reduced from 512 crores of rupees in 1934 to 57·41 crores at the end of March, 1943. Sterling having become available, the sterling debt has been paid off. Rupee loans were issued as counter-parts of Indian sterling loans. Sterling loans in the United Kingdom were paid off by open market purchases, through the licence scheme of February, 1940, compulsory schemes and the funding of Railway annuities.

At the end of March, 1943, India's public Debt amounted to over 1200 crores of rupees (710 crores in 1939).

Use of Sterling balances. The Bombay Plan proposes to use Rs. 1,000 crores of sterling balances for the purchase of capital goods for industrialisation. This is the best possible use of our sterling assets. British financial opinion is overwhelmingly against a legalistic treatment of the Empire countries' sterling balances, but repudiation is not likely.

CHAPTER III—Foreign Trade.

Balance of Trade. As during the last world war, the balance of trade is heavily in our favour. As compared with 1938-39 imports have contracted, but exports have expanded. Allowing for the rise of prices, both exports and imports have shrunk. The quantum of imports fell from 100 in 1938-39 to about 38 in 1942-43 and that of exports to about 63.

The Gregory-Meek Mission. This Mission was sent to the United States in 1940 to explore the posibilities of new markets in the United States to replace the lost markets in Europe. The report of the Mission was largely negative in character and unduly pessimistic. Actually exports of Indian merchandise to U. S. A. approximately doubled in 1941-42 as compared with 1939-40. To develop Indian exports to U. S. A. it is necessary to pay regard to the special character of the American market—"Variety, novelty, strict adherence to the specifications laid down, and promptness of delivery are essential."

Composition of Trade. The proportion of imports of manufactured goods has fallen heavily while that of imports of raw materials

has more than doubled. As for exports, the proportion of exports of raw materials has fallen, while that of manufactured goods has risen from 30% to over 50%. These changes are almost incredible. The war has completely transformed the character of our foreign trade.

Principal articles exported and imported. Under imports the most noticeable increases are in the case of oils and cotton; imports of cotton manufactures have declined. The exports of cotton manufactures have considerably increased; exports of raw cotton and cotton waste are negligible.

Direction of Trade. The percentage share of the British Empire in imports, after rising in 1941-42, fell in 1942-43, but in exports has substantially improved. Among foreign countries the greatest expansion has taken place in the trade with U.S.A. Exports have increased to Australia, Iran, Arabia, Iraq, Asiatic Turkey, Canada and the Union of South Africa.

Chapter IV.—Effects of the War on Indian Manufacturing Industries.

Technical training. Indian workers are being trained in methods of war-production. The total number of training centres in India at the end of March, 1943, was 386, with a capacity of about 47,000. The Bevin scheme of training Indian operatives in England is in operation. By the end of May 1943, over 300 candidates had secured their training under this scheme.

Industrial Production. Government orders, amounting to about a crore of rupees a day, have stimulated industrial production. New industries have been established. Substitutes for imported goods have been found. The production of textiles has enormously expanded. The woollen industry is entirely on a war footing. The production of munitions has gone up many-fold. High explosives and many chemicals have been manufactured in India for the first time. Equipment was imported from the United Kingdom and U.S.A., and also technicians.

Industrial Profits. Profits increased slowly in 1940 and more rapidly in 1941. There was a set-back in 1942, but a remarkable recovery in 1943. Jute, cotton, tea and engineering have profited most from the war demand; sugar and coal have done less well.

The proportion of profits utilised for dividends has fallen while the reserve funds have increased by about 50%.

Control of capital issues. The restrictions imposed by the Ordinance relating to capital issues were somewhat relaxed in April, 1944. The object is to aid post-war reconstruction. The new capital raised for long-range schemes must be invested in Defence Loans, and must remain so invested until released by Government.

The Cotton Mill Industry. The output increased to 4,494 million yards in 1941-42 but fell to 4,029 million yards in 1942-43. The amount available for consumption was 15 yards per head in 1941-42 as compared with about 16 yards in 1937-38. *Per capita* consumption of hand-loom production in 1941-42 (5·4 yards) constitutes a record. To help the poorer consumers, mills are producing standard cloth which is sold at a reasonably low price.

The Jute Industry. The industry was prosperous in 1941-42, thanks to American orders. The bombing of the Calcutta area in Dec., 1942, and Jan., 1943, caused a large defection of labour and a fall in output. Coal difficulties have troubled the industry.

Iron and Steel. The industry has been switched over from peace-time to war-time production. The output has considerably increased and new varieties of steel have been produced. The distribution of iron and steel is under strict Government control.

Sugar. The output in 1942-43 exceeded 1 million tons, U.P. and Bihar accounting for 80% of the total output. The distribution of sugar is under the Sugar Controller. Sugar is rationed in the bigger towns.

Cement. Both output and price are under Government control. The rise in price has been comparatively small. The increase in internal demand is connected with war requirements.

Paper. Home production is insufficient to meet the demand and coal difficulties have increased the shortage. *Sabai* grass and bamboo pulp are available, but there is an acute scarcity of replacement parts and chemicals

Enamel Industry. The manufacture of enamel ware started about 1922. Thanks to Government orders the industry is flourishing.

Mica. The war has led to the discovery that "India is the world's chief source of supply of this most important commodity." Mica is indispensable to the electrical industry. Mica is perhaps the only raw material which is carried by air from India to U.S.A.

There is need for checking mica thieving, which is common in Bihar, and for modernising methods of exploitation. The Government have appointed a committee to investigate conditions in this industry.

The Grady Mission (American Technical Mission). This Mission visited India in the summer of 1942. The Mission approved of the labour training schemes of the Government of India and recommended their rapid expansion. They made specific recommendations regarding the production of power alcohol, rationalising the use of electric power, expansion of the steel industry, nationalisation of plants producing munitions, production of aluminium and other

articles. They suggested a rigid control of private industry and the establishment of a War-Cabinet. U.S.A. was to supply technical equipment and also technicians.

Chapter V.—Agriculture.

General effect. As compared with 1938-39 there was in 1942-43 a heavy fall in the exports of jute, cotton, oil seeds and lac. The exports of hides and tea increased in 1941-42, but fell slightly in 1942-43.

Raw Jute. The decline in exports of raw jute led to the piling up of unsold stocks. Attempt was made to restrict the area under the crop. This policy has been continued, and it has been assisted by the 'Grow more food' campaign.

Raw Cotton. The cotton grower was hit by the loss of Continental markets, and much harder by the loss of the Japanese market. Long-staple cotton grown in India was easily absorbed, but there was a huge surplus of short-staple cotton which formerly found a large market in Japan.

Government decided to assist the cultivators to change over from short-staple cotton to other more useful crops. A special fund was created by imposing an additional duty on imported raw cotton for relieving distress among growers of short-staple cotton.

Depressed conditions lasted till about the middle of 1942 and then a boom started. Special measures had to be taken to curb speculation. Later, futures trading was permitted under certain conditions.

Increased purchases by the United Nations and increased mill consumption have how absorbed all the available supply of raw cotton.

Groundnuts and Oil-Seeds. The loss of important foreign markets created a glut in our oil-seeds market. Propaganda was carried on for the reduction of acreage and schemes were initiated for increased internal consumption.

A more hopeful view of the general agricultural situation is now taken than before. The Mediterranean route is now open to shipping. Increased exports, it is thought, may even create a shortage of agricultural commodities.

The Food Situation. On account of the separation of Burma, imports of rice have ceased. Wheat exports had also practically disappeared at the beginning of the thirties; their revival later was due to demand for 'security stocks'. The change means that India, formerly a food-exporting country, has now become a food-importing country.

Production and Foreign Trade. In the year 1939-40 over 2 million tons of foodgrains and foodgrain products were imported (net). The production of foodgrains shows no upward trend, while the population is increasing rapidly.

Net amount available for consumption. The average net amount available for consumption in the period 1939-40 to 1942-43 was slightly less than that during the preceding period of 4 years. The incompleteness of food-statistics provides no strong argument against the supposition of a food shortage.

Factors contributing to shortage. *Wheat.* Exports increased between 1939-40 and 1941-42 and there were large purchases on behalf of the Defence Services and for military stocks. The exact amount of these purchases is not revealed for reasons of security, but the Foodgrains Policy Committee suggested "the utmost candour on the part of the Food Department in this respect."

Rice. The rise in the price of rice is not explained by either hoarding and profiteering or 'inflation'. There was definite shortage due to cessation of Burma imports, the cyclone of Oct. 1942, and disease affecting the *Awan* (winter) paddy crop of Western Bengal.

Remedial Measures. The remedial measures recommended by the Foodgrains Policy Committee are the following :—

I. *To increase available supplies* :

(*a*) Food exports must cease.

(*b*) India should import 1 million tons of food annually, and in addition, 50,000 tons are required for a Central Foodgrains Reserve.

(*c*) *Grow more food campaign.* Provincial Governments are to help the campaign by (*i*) large-scale distribution of improved seed, (*ii*) encouragement of irrigation and drainage schemes, (*iii*) Importation of tractors and other agricultural implements, (*iv*) regulating crop production and compelling the cultivation of cultivable waste lands, and in other ways.

II. *Improvement of procurement machinery.* Procurement machinery signifies means whereby home-grown supplies of food are made available for consumption.

India may be divided into surplus and deficit provinces ; the deficit in one part of the country must be made up from the surplus of other parts (apart from imports). There is to be no compulsory requisitioning, but the inducement to the cultivator to sell is to be increased.

III. *Rationing.*

IV. *Statutory price control.* This means enacting legislation prohibiting a seller from taking or a buyer from offering more than the prescribed price. The Statutory price of a food-grain cannot be the same in different parts of the country.

V. *Re-adjustment of the relations between the Provinces and the Centre.* The Centre is to have the last word in all essential matters.

Measures to grow more Food These measures must include the better utilisation of manure. Phosphoric slag from steel furnaces, and animal bones provide good manure.

Change in Government policy. The Government of India have accepted the main recommendations of the Foodgrains Policy Committee. The old policy of non-intervention has been completely abandoned. Exports have been prohibited. Substantial quantities are being imported. Rationing has been introduced in 226 cities and towns with a population of 35 millions. A Price Advisory Panel has been established. Statutory-prices on an all-India basis have been fixed for wheat, *jowar* and *bajra*. Statutory controls are operating for rice, and more attention is being paid to increasing production, improving storage facilities, and to securing a more equitable distribution between surplus and deficit areas.

CHAPTER VI.—Economic Controls and their significance.

The Government have taken wide powers to control almost every aspect of economic life. Under the Defence of India Rules the Central or Provincial Government may regulate or prohibit the production, treatment, storage, transport, distribution or consumption of any commodity. The Government may take over any undertaking or compel it to work according to their instructions. Measures of control relate to foreign trade; the foreign exchanges; currency; hoarding and profiteering; speculation or forward contracts and options in bullion, cotton cloth and yarns, cotton, food-grains, oil-seeds, securities (*budla* transactions); capital issues; and production and distribution of food-grains: *gur*, sugar, cotton, cotton cloth, and yarns, building materials (bricks and cement), many chemicals, fuel, machinery, metals (particularly iron and steel), certain fibres, starch, motor spirit, motor vehicles and parts, paper, newsprint and rubber.

Significance of Economic Controls. Our present economic system may be described as State-controlled capitalism. This system has been brought into being to divert resources to war purposes The same system of controls, improved and perfected, may be used in times of peace to build up the industrial system, or to create heavy industry. If we can plan for war on the basis of State-control (not State-ownership) of means of production, we can still more easily plan for peace under the same conditions.

PART III—POST-WAR PLANNING

CHAPTER VII.—Reconstruction Plans.

U.S.A. America's post-war reconstruction schemes deal with problems of demobilisation of men and of war-plants and machines,

the development of an expanding economy, and social security and services. There is to be no unemployment, and for all equal access to security, education, health and nutrition, and 'wholesome housing.'

United Kingdom. The ambitious aim of the Beveridge Report is to abolish want in the United Kingdom. The estimated social security expenditure is £ 697 millions for 1945 and £ 858 millions for 1965.

Report by the Federation of British Industries. The F. B. I. take a pessimistic view of British economic position at the end of the war. Britain will emerge from the war as a debtor country with a heavy load of public debt, and with reduced income from services and overseas investments. The home market must be secured to British industries ; imports are to be restricted by tariffs and other means (quotas).

Quantitative Trade Controls. The F.B.I. favour a policy of 'directive' imports, or the regulation of imports by the British capacity to pay for them. This would involve import and export restriction by quota, preference and exchange control.

Trade restriction by quota means quantitative control. American opinion is against quantitative control, preference and exchange control. But Britain must safeguard her interests.

Quotas rigidly fix imports in the upper direction, and therefore give greater security to home manufactures. A tariff may be neutralised by a fall in costs and prices abroad, reduction in sea-freights, or export bounties granted by a foreign Government.

For a very short period after 1920, there was a relaxation of quantitative trade controls in Europe. Their revival after 1929 was due to four main causes : (1) heavy and continued fall of agricultural prices. (2) the danger to the currency and exchange position, (3) the need for creating employment, and (4) the danger of war in the near future.

The end of the war is not likely to remove the need for quantitative controls.

Post-war India. Demobilization is not such a serious problem in India as in U.S.A. or the United kingdom. The peasant warrior will go back to his village. The pressure on the soil is heavy, but the war has nothing to do with it. Similarly, demobilized educated Indians will be provided with jobs for war-services, and many of those temporarily employed in war departments will lose their jobs. There will be educated unemployment. But this is not a new problem either. The old position will be restored.

Review of Pre-war Problems. Most of our economic problems are pre-war problems. Our war-experience has shown the urgency of these problems and brought home to us the danger involved in delaying a solution.

Industrial Deficiencies. India cannot defend herself. Apart from other considerations, India must industrialise for reasons of national defence.

Agriculture. India is not self-sufficient in the matter of food. Indian agriculture must be so improved that it properly feeds our population and supplies adequate quantities of raw material for industries. This is the problem of Indian agriculture viewed from the stand-point of production. This problem is not difficult of solution.

The problem of stabilizing agricultural prices at a remunerative level is the problem of Indian agriculture viewed simultaneously from two points of view, that of the agriculturist as a human being, and that of industrialisation.

Remunerative prices cannot be guaranteed to the agricultural producer without breaking loose from the world market. Our subsistence farming cannot survive the operation of the law of comparative costs. The modernisation of Indian agriculture, if possible at all, is a long-run undertaking.

Purchasing power for industrial products. *The home* market for the products of our manufacturing industries is almost unlimited in extent provided we can increase the purchasing power of the masses. This can be done only by maintaining remunerative prices of agricutural products in a 'closed' economy, irrespective of the level of world prices. Even if a world commodity control materializes, world prices will not be fixed with regard to the requirements of Indian cultivators.

The Population Problem. Without birth-control there is no solution of the population problem. Emptier India would be a happier India.

Educated Unemployment. There is need for adapting education to the economic requirements of the country. Higher literary education in India is a luxury and a waste.

Foreign Trade. India must devise means of lessening her dependence on foreign countries. The days of unrestricted imports are gone for ever. Apart from imports of technical equipment and technical skill, all other imports would have to be carefully watched and controlled. Extended use would have to be made of the tariff, and also of quotas and exchange control, for the regulation of imports.

Currency. The repatriation of sterling debt has weakened the case for a high rate of exchange. India's currency policy must be determined solely by considerations of India's good. So far we never had an independent currency policy.

Agricultural and Industrial finance. Having wasted much time, money and effort in the attempt to destroy the deep-rooted indigenous system of rural finance, we may now try to re-organise and improve it.

Industrialisation is impossible without the creation of special financing institutions and a reorganisation of central banking. In an un-co-ordinated banking system, a central bank has no utility except as an *ornament*.

Taxation. Great changes are needed in the system of rural taxation. Regarded as a tax, the land revenue is regressive in its effect. To increase the purchasing power of the rural masses (apart from remunerative prices) we need (i) a readjustment of tax-burdens as between the rural worker and the non-worker, (ii) substantial improvement in the conditions of tenancy, particularly in provinces like the Punjab, where the tenants are mercilessly exploited by landlords.

The Bombay Plan. The object of the Bombay plan is to double the present *per capita* income within a period of 15 years. Allowing for the growth of numbers during the planning period, total national income must increase about three times.

The Bombay plan proposes to somewhat more than double the net output of agriculture, while industrial production is planned to increase about five times. The capital cost of the plan is estimated at about Rs. 10,000 crores, of which agriculture will account for 1,240 crores, housing for 2,200 crores and industry for 4,480 crores. Both large and smalls-cale industries are to be developed, but the Plan lays emphasis on the basic industries (heavy industry). The basic industries are to be developed as rapidly as possible.

To the extent of 3,400 crores the Plan is dependent on 'created money' for finance. Savings are estimated at 4,000 crores. External sources are sterling securities (1000 crores), balance of trade (600 crores), and foreign borrowing (700 crores). Rs. 300 crores may be mobilised out of hoards.

The Gap. 'Created money' cannot be used for industrialisation without a rigorous control of all aspects of economic life. This control is inevitable on account of the gap between the volume of purchasing power in the hands of the people and the volume of goods available. 'Planning without tears is an impossibility.'

Reception of the Plan. The plan has met with sweeping condemnation in the British press. It is regarded as an attempt on the part of 'big business' to exploit India for its own purposes. English socialists and Liberals may try to save the Indian people from Indian exploitation.

'Created money' is regarded with suspicion and distrust by some leading Indian economists. Sir Jeremy Raisman (Finance Member) has expressed his disapproved of unorthodox methods of finance. The advocates of freedom and democracy are not pleased with the politics of the plan. There is no objection to State-controlled capitalism for winning the war, but for some unexplained reason, the improvement and perfection of the present system for the economic development of the country is held to be highly objectionable by the critics.

Chapter VIII.—Meaning and Cost of Industrialisation.

Industrial development with imported machines is not industrialisation. It creates unemployment in the country importing the machines and employment in the country exporting them. This is our own experience. In spite of the growth of industry, pressure of population on the soil has increased. Russia formerly used to import machines from Germany, Sweden and the United Kingdom. When industrialisation began, the Soviet Government paid less attention to consumers' goods but concentrated all effort on the building up of heavy industry.

Industrialisation is accompanied by a fall in the proportion of Primary workers, and a rise in that of Secondary and Tertiary workers. The most prosperous countries have the highest proportion of workers engaged in Tertiary occupations. The flow of labour to production may be studied historically in many countries.

Data relating to 31 countries show that *per capita* income is less where the proportion of Primary workers is high, and that it rises as the proportion of Secondary and Tertiary workers rises. Correlation between *per capita* income and the proportion of Tertiary workers is the most significant.

Between 1872 and 1935 the proportion of workers engaged in Primary occupation in the United states fell from 72·3 % to 25·4% ; in Japan the same proportion fell from 84·8% in 1872 to 53·3% in 1930. The trebling of our national income should bring down this proportion to about 60%. In overseas countries like Canada, and Newzealand *per capita* income is high in spite of a comparatively high proportion of Primary workers. They are new countries.

Cost of Industrialisation. The investment in industry alone in U.S.S.R. for capital construction between 1928 and 1940 amounted to over 156 milliard roubles (=Rs. 7,800 crores, 1 rupee=2 roubles). Gross investment in Germany in three years (1932-34) amounted to over Rs. 1,100 crores ; net investment was negative. It is abvious that industrialisation is a costly affair. Industry, agriculture and communications might well absorb Rs. 10,000 crores over a period of 15 years in India.

The relation of Investment to Income. When there is an increment of aggragate investment, income increases by an amount which is *K* times to the increment of investment. The value of *K* is different in different countries and at different times in the same country. In U.S.A., between 1921 and 1935, the average value of *K* was 2·8778, or the increase in income was 2·8778 times the increment of aggregate investment.

The ratio of capital to product. The capital requirements of the Bombay Plan have been estimated on the basis of the ratio of capital employed to the net product of capital. A ratio of 2·4 is assumed, including land in capital. The ratio is too low. Excluding land values but including buildings, the ratio in Great Britain has varied between 2·68 and 4·46 ; among different countries it varies between 3·25 for Japan and 5·85 for Argentine. The U.S.A. and Massachusetts data suggest a ratio of 5·1.

CHAPTER IX.—The Gains of Foreign Trade.

The Bombay Plan aims at making India more or less self-sufficient, or autark. Planning assumes a 'closed' economy. Will not planning sacrifice the gains of foreign trade ?

Ricardo, J. S. Mill and Bastable have attempted to explain how these gains arise. Ricardo ignored the terms of trade, and one would be led to suppose from his illustrations that the whole of the advantage resulting from specialisation was enjoyed by each of the two parties to exchange. Actually the benefit from increased production is shared by the parties according to the terms of trade, which are determined by the intensities of reciprocal demand within the limits set by comparative costs.

The gains of foreign trade, from the point of view of agricultural countries, are illusory. When foreign trade turns an *Agrar-industriestaat* into an *Agrarstaat*, there is a diversion of labour from more to less productive occupations in the agricultural country, and *vice versa* in the industrial country. The law of increasing returns begins to operate strongly in the industrial country, enabling it to acquire the products of agriculture, in exchange for its manufactures, with the expenditure of less and less labour-power. The diversion of labour

from less productive to more productive occupations enables the industrial country to reduce hours of work. and the general level of economic well-being rises with the growth of national wealth and income. In the agricultural country, on the other hand, the pressure of population on the soil increases, which makes the law of diminishing returns act more strongly. Modern methods of manufacture are not the monopoly of any country and it can be shown that an agricultural country will gain by developing her own industries even if her labour is less effective in manufacture than labour in the industrial country, which is ready to supply it with manufactured goods on the most advantageous terms. This is because industrialisation diverts labour from agriculture, where it is about four times less productive, to manufacture. Pressure on the soil is relieved and labour and capital are more profitably employed than before

M. Manoilesco distinguishes between two kinds of exploitation, political and economic. Economic exploitation is invisible exploitation of agricultural countries through foreign commerce.

Cottage Industries. The idea that the production of handicrafts in India could be increased twenty-fold within ten years is absurd. The productivity of machines is greater than that of hand-power. Where there is no competition between men and machines, there is scope for the development of handicrafts ; in all other cases there is loss of real income in replacing machines by hand-power.

Chapter X.—The Role of Money in a Planned Economy.

The rules of the gold standard game do not apply to a 'closed' economy organized on the principles of state-capitalism or State-controlled capitalism. The role of gold in German recovery (1933-38) or Russian industrialisation (1928-40) was of little importance.

In a sense all money is 'created money.' "The soul of currency is not in the material of the pieces but in the legal ordinances which regulate their use" (Knapp). From this point of view there is no difference between gold money and paper money issued against *ad hoc* securities.

According to the *laissez faire* view, the function of a legislator as regards currency is to do as little as possible (Marshall). In a planned economy, however, the State may use money as a powerful mobilising agent in order to increase production and secure full employment.

'Created money' in the form of notes set up capital enterprises in Russia. Created money in the form of bank credit abolished unemployment and reconstructed economic life in Germany.

Danger of inflation. The daily war expenditure of the United Kingdom amounts to 13¾ million, but the rise in the cost of living is negligible. So long as the limit of minimum consumption is not reached, increase in Government expenditure, combined with a rigorous system of over-all controls, will enable war to be waged more and more effectively. What is true of war is also true of a period of preparation for war. Contenting themselves with less butter, a people may have more guns.

Peace-time Reconstruction. 'Created Money' caused an inflationary rise of prices in Russia because : (1) light industry was deliberately neglected, and (2) huge sums were sunk in gigantic projects whose completion dragged out interminably (Molotov). The danger of inflation remains when created money is used for financing schemes of public health or public education. But there is no danger of inflation in the pre-financing of output, or in financing industries whose products will, with more or less delay, move into consumption. The problem of the 'gap' is solved by over-all controls.

CHAPTER XI.—Notes *versus* Bills, or State-credit *versus* Bank-Credit.

'Created money' took the crude from of currency notes in Russia, and the refined form of bank credit in Germany.

The German Experiment. The ordinary sources of finance (new savings, taxation and the capital market) could not provide the huge sums needed for reconstruction. Enterprises were financed through 'Employment Bills', which were discounted by bankers and re-discounted by the Reichsbank. New money was created by the Reichsbank, when needed, against Government treasury bills. The total amount of bills held by the Reichsbank and discounted by the commercial banks increased between 1932 and 1937 from 6,156 million RM. to 13,849 million RM. The increase in note circulation was only 54·2 per cent (59% in U.S.A. during the same period). Wholesale prices rose by 7 points (a rise of 13 points in the United Kingdom and 20 points in U.S.A. in the same period)

The rise in the cost of living was still less, and real wages rose. There is no trace of any inflationary rise of prices during the reconstruction period in Germany.

Reconstruction through bank credit is superior to reconstruction through currency notes. A bill is created for a certain purpose and is self-liquidating ; a note is a medium of circulation.

'Created money' in the Bombay Plan is in the form of currency notes. The risk of inflation will be minimised if we finance capital enterprises by means of bills instead of by notes.

Reconstruction of Banking. India may be rapidly industrialized through bank credit, with a reconstructed banking system.

(*a*) We want fewer, but larger banks with numerous branches. Bank amalgamations can be encouraged by suitable legislation. The larger banks should be assisted in opening new branches by means of subsidies.

(*b*) The insurance of deposits of any one depositor, in any one bank, to the extent of, say, Rs. 5,000, will increase public confidence in the banks, and may help in mobilising hoards.

(*c*) At present Government securities are preferred by joint-stock banks to other means of investment. Employment bills, or industrial bills, accepted by Government institutions created for the purpose, and re-discountable at the Reserve Bank, would provide an ideal investment from the point of view of the banks.

(*d*) Under the system proposed the Reserve Bank will be in close, daily contact with the scheduled banks, rediscounting their bills and thus providing them with cash. There will be no limits imposed on the power of the Reserve Bank to create more money -so long as the new money is required to finance productive enterprises.

At present the Reserve Bank largely serves an ornamental purpose.

Chapter XII—Orthodox Methods of Finance.

Orthodox methods of finance must rely on the genuine savings of the people. Commercial bank deposits have rapidly expanded during the war, and if this trend persisted for 20 years, then, in 1964, deposits would exceed Rs. 4,000 crores. But the phenomenal growth of deposits since June 1942, is due to created money. Unless 'created money' continues in operation, soon after the cessation of hostilities prices will fall, currency will contract, deposits will cease to grow and they may even decline. The trend of deposits between 1896 and 1940 makes it clear that apart from 'created money' it is not possible for our deposits to grow by leaps and bounds.

Chapter XIII—The External Aspect.

Sterling balances, endowed with multi-lateral convertibility, would be of the greatest use for the purchase of capital equipment abroad. The International Monetary Conference has, however, turned down our proposal that would have released our blocked sterling balances. The Conference also rejected the proposal to release a part of these assets for conversion into foreign exchange.

India has acquired sterling at a heavy cost. Its best possible use is for the economic development of the country. Repudiation would be preferable to the import of consumers' goods.

Planning assumes a 'closed' economy. In regard to international monetary or other arrangements it is a mistake for us to enter into

commitments which may have to be repudiated later. Under planning we may have to make use of bi-lateral clearing arrangements and multiple currency arrangements involving exchange discrimination,

CHAPTER XIV.—Religion and Economics.

The real argument for cottage-industry is not economic but spiritual. Mahatma Gandhi is the greatest advocate of village industry, and he is also the greatest advocate of non-violence. Village industry and non-violence are integral parts of an intensely religious view of life.

Non-Violence. India was converted to non-violence more than 2,000 years ago. The morality which King Asoka's Mahamatras were appointed to establish throughout his vast Empire included *Ahimsa* and indifference to wealth.

Non-violence is a high ideal. So is communism. But these are ideals which can be realised, if at all, on an international, never on a national scale. Both non-violence and communism ignore the international struggle for existence.

The creed of *Ahimsa*, as practised by the Hindus of the Western coast, was described by De Jongh (1625) It explains why the roads were unsafe for travellers; probably it also explains much of our political history during the past 2,000 years,

Requirements of National Defence. Non-violence cannot defend a country against foreign aggression. A modern war cannot be waged without modern weapons and other equipment. The question is therefore no longer 'Charkha *versus* the dynamo.' Even in a 'closed' economy this choice is not open to us. For a 'closed economy' does not free a county from the international struggle for existance.

Western Materialism and Indian Spiritualism. In the minds of some writers industrialism is associated with materialism, and the indigenous system based on cottage industry and agriculture with spirtual virtues. There is the same exploitation of labour by owners of means of production (land and capital) in the Indian system as in the West Further, the exploitation of the agricultural worker and the handicraftsman is more difficult to prevent than that of factory workers. Our workers cannot combine and act together on account of the very nature of their occupations—they largely work in isolation.

Soul Development. Religion connects poverty with good life. The saint despises material wealth. But the common man is not a saint, and, for common men and women, poverty is not soul-uplifting but soul-destroying. India has a rich spiritual heritage, but its preservation does not depend on the perpetuation of poverty and all that it implies.

CHAPTER XV—The State.

No form of Government possesses an absolute value. The value of a constitution is relative to the tasks it has to perform. It follows that the best form of government for a *laissez faire* regime may not be the best form of government for a planned economy.

J. S. Mill's argument. Mill's argument in favour of representative government as the ideal form of government is based on his system of individual liberty. This system assumes that human beings are self-protecting and self-dependent. The functions of government under such a system are very restricted.

But *laissez faire* is dead. Capitalism has changed, and, on account of the change, it is no longer true that the free play of self-interest produces the best results in practice. A system of plan-less control and regulation arose during the period between the two world wars. It ended the old system of plan-less freedom and individual choice.

Planning. Planning consists in the conscious and deliberate direction of the whole productive mechanism of a country for the realisation of pre-determined ends.

Planning is beyond the comprehension of the multitude; the initial sacrifices that it demands will not be made if the matter were to be decided by a plebiscite. It is sometimes necessary to coerce the people for their own good.

Democracy and Planning. When planning begins, whether for war or peace, democracy 'withers away' and the State virtually assumes the role of a dictator. This is the meaning of the one-party system of Italy, Germany and the Soviet Union. Nor can we forget the Indian masses. They are illiterate. They know nothing. They are sunk in superstition. They are moved by communal passion and religious frenzy.

Plato on Democracy. Plato regarded government of the many as 'the worst of all lawful governments', The worst feature of democracy in India is that it has produced leaders who respond to the mass mind. Popularity is not the test of true leadership, but when power depends on popular support, leaders and rulers must respond to the mass mind.

Where there is a conflict between the interests of classes, castes or communities, and legislators represent particular interests, democracy becomes a means of enriching the particular class, caste or community in power. This not a matter of theory, but what we actually see.

What the State may do. The modern State has powerful means at its disposal for moulding the character of its subjects. The State has only to lead; the citizens must follow.

British theories of democracy are inapplicable to india. Our social and other circumstances are different, our history and tradition are different ; and our masses lack that political training and discipline which the British people acquired in the course of their struggle for freedom extending over centuries.

Ancient India. Our love for democracy is imitative. India was not governed according to democratic principles at any time during the Mohammadan period Republics were not unknown in ancient India, but they were small and weak, and of little account. The State in Kautilya's *Arthshastra* is the very anti-thesis of the *laissez faire* State—it is a State suggesting *Planwirteschaft* or planning.

INDIAN ECONOMIC PROBLEMS

PART II

WAR-PERIOD

CHAPTER I

FINANCE

We concluded our review of Indian economic conditions in the pre-war period with finance. We begin our study of the war-period with finance. There is no aspect of economic activity which is not affected by war-finance, and finance must claim our attention first.

1. Provincial Finance.

The table given on the next page shows the expanding resources of the provinces from 1939-40 to 1944-45.

It may seem as if the possibilities of revenue expansion were exhausted in 1942-43 budgets, for the total budgeted revenue for 1943-44 was about equal to that for the preceding year. This is incorrect. As compared with the budget figures, the revised estimate for 1943-44 in Madras anticipates an increase of about 6 crores in revenue (due principally to increase under excise and enhancement of the Sales tax). In the Punjab the revised revenue estimate for 1943-44, as compared with the budget estimate for the same year, shows an improvement of about 5 crores. (Actually the excess is 6 crores, but 60 lakhs have been put in the Special Development Fund.) The heavy surplus is due to increase under the more important heads, and from the sale, at most favourable prices, of undeveloped agricultural lands. The anticipated revenue in 1944-45 shows an increase, as compared with 1939-40, varying between 37 and 89 per cent in different provinces.

"Rise in the prices of agricultural produce has had a distinct effect on our receipts", said Sir Manohar Lal in the course of his budget speech for 1944-45. The rise in prices

Table I. 1.

Provincial Government Budgets : 1939-40 to 1944-45. Revenue *in lakhs of Rs.*

	1939-40, Accounts.	Surplus or deficit.	1940-41, Accounts.	Surplus or deficit.	1941-42, Accounts.	Surplus or deficit.	1942-43 Revised Estimates.	Surplus or deficit.	1943-44, Budget Estimates.	Surplus or deficit.	1944-45 Budget Estimates.*	Increase per cent over 1939-40.
Madras ...	1666	+ 29	1808	+ 53	1955	+ 88	2105	...	2133	+10	3020	81
Bombay ...	1314	+ 31	1448	+ 87	1686	+161	1761	+ 59	1769	...	2490	89
Bengal ...	1432	+ 61	1354	− 91	1494	− 56	1567	−154	1602	−153	2197	53
U.P. ...	1352	+ 7	1465	+ 1	1650	+ 2	2011	+ 11	2026	+ 8	2514	86
Punjab ...	1169	− 37	1289	+ 69	1431	+ 64	1577	+ 6	1519	+ 50	1964	68
Bihar ...	548	+ 12	618	+ 30	655	+ 54	721	+ 56	907	+ 61	978	78
C.P. ...	509	+ 33	526	+ 30	531	+ 20	647	+ 15	640	+ 7	808	59
Assam ...	293	+ 1	329	+ 16	328	− 3	344	− 10	364	− 8	452	54
N.-W. F. P.	183	− 4	192	+ 9	220	+ 22	229	− 17	207	− 8	†	...
Orissa ...	188	+ 4	199	+ 11	206	+ 15	219	− 7	212	− 4	257	37
Sind ...	429	+ 24	520	+ 15	585	+ 26	570	− 63	496	− 13	797	86
Total ...	9083	+161	9748	+230	10741	+303	11751	−104	11665	− 50		

**Eastern Economist*, April 14, 1944, page 502. †Figures not available at the time of writing.

is not normal, and Sir Manohar Lal is not deceived by the resulting expansion of revenue: "A characteristic of provincial finance in India is that the revenue is comparatively inelastic, no fresh and productive sources of income can be easily added to the tax structure; expenditure alone can be controlled, but even that by no quick effort."

All provinces have benefited by larger war orders for small-scale industries. Provincial forest resources are being more fully utilized than ever before. The increase in agricultural income has made it possible to collect arrears of land revenue—the figure of land revenue (gross) constitutes a record in the financial history of the Punjab. It can be easily understood that when the agricultural classes have more money, the Excise and the Stamp Revenue would increase.

The increase in expenditure is accounted for mainly by additional police, civil defence measures and dearness allowance. In certain provinces attention is also being paid to post-war reconstruction. Contributions, out of surpluses, are being made annually to the Post-war Reconstruction Fund in Bombay, the Revenue Reserve Fund in U. P., and the Special Development Fund and the Peasant Welfare Fund in the Punjab.

Excepting Bengal provincial finance is in a prosperous condition. (The Government of India have granted a subvention of Rs. 10 crores to Bengal to meet abnormal expenditure due to famine and other causes.) On the whole, the 'face of heaven', to use Sir Manohar Lal's picturesque phraseology, is shining upon provincial finance more favourably. The provinces owe their prosperity to the Centre both indirectly and directly. Indirectly, they are indebted to the Centre for the rise of prices, and, directly, for a share of the income tax which is about four times greater than that fixed by Sir Otto Niemeyer. The divisible amount of the income tax recommended by Sir Otto Niemeyer was 12 crores; this divisible pool rose to 44 crores in 1943-44 (revised estimate), and for 1944-45 it is actually 56½ crores. The provinces will get about 24 crores out of the pool as their share in 1944-45.

The 'face of heaven' shining upon us all (excepting the unfortunate 'fixed incomist') more favourably, is 'created money'.

CENTRAL FINANCE

2. Revenue and Expenditure.

The following statement gives a bird's-eye view of Indian finance since 1938-39 :—

Table I. 2. (*Crore Rs.*)

Year.	Total Revenue.	Defence expenditure.	Total expenditure.	Percentage Increase in total expenditure as compared with preceding year.	Total Revenue as percentage of total expenditure.
1938-39 ...	84·5	46·2	85·2	...	99·2
1939-40 ...	94·6	49·5	94 6	+ 11	100·0
1940 41 ...	107·7	73·6	114·2	+ 21	94·3
1941-42 ...	134·6	103·9	147·3	+ 29	91·4
1942-43 (revised). ...	178·8	238·9	322·5	+119	55·6
1943-44 (revised). ...	254·5	262·6	346·9	+ 8	73·4
1944-45 (budget). ...	285·0	276·6	363·2	+ 5	78·5

Even before the outbreak of the war, in 1938-39, the proportion of defence expenditure to total Central revenue was high :—

Table I. 3. (*1938-39*)

	Total Revenue.	Defence expenditure.	Proportion of defence expenditure to total revenue %
India (crores)	84·5	46·2	54·7
United Kingdom ... (£ millions) ...	927	400*	43·2
U. S. A. (million $)	5,165	1,206†	23·3
Australia (million Australian £) ...	95	14	14·7
South Africa (million South African £)	45·5	3·80	8·4
Canada (million Canadian $) ...	499	34	6·8

*Approximate figure. †Net Revenue.

The figures are not strictly comparable, but it is clear that lefence expenditure represented a disproportionately high percentage of central revenues in India, which accounts for the almost total absence of social insurance in India. But too much cannot be made of this point. When *swaraj* comes, for the first few years, at any rate, the proportion of defence expenditure to total revenue may be expected to rise rather than to fall.

The proportion of total revenue to total expenditure, after falling to about 56% in 1942-43 has risen to about 79 per cent at present.

The deficit amounted to 112·2 crores in 1942-43 (actual), and 92·4 crores (Revised estimate). The budget figure of deficit in 1944-45 is 78·2 crores.

The details of expenditure on the Defence Services in 1944-45 are shown below :

Table I. 4.

Expenditure charged to revenue

		Crores
(1) Basic Normal budget	...	86·77
(2) Effect of rise in prices	...	15·05
(3) India's war-measures	...	215·58
(4) Non-effective charges	...	9·21
		276·61

Capital Expenditure

(1) Air-fields	...	10·00
(2) Capital outlay on industrial expansion	...	2·00
(3) Reciprocal Aid, Air-fields	...	5·20
(4) New Construction for the Royal Indian Navy		1·60
(5) Capital outlay on tele-communications scheme		5·80
		24·60

3. Lease-Lend.

Item (3) under capital expenditure requires an explanation. India receives benefits from the United States under the Lease-Lend Agreement (first introduced in March 1941) which, up to the end of 1944-45, is expected to amount to about Rs. 350 crores (the allocation of these benefits between the British Government and the Government of India has not yet been determined). In return we give Reciprocal Aid, which is technically known as Lease-Lend in Reverse (first introduced in July 1942). Reciprocal aid to the

U.S.A. takes the form of rations, clothing, ordinance and other stores for the U.S.A. forces; the construction of accommodation, air-fields and connected works; the provision of transportation, communication and maintenance facilities of various kinds; aid to U.S.A. shipping using Indian ports; and available raw materials and available food-stuffs such as tea for the U.S.A. Government directly for war purposes. Up to the end of 1944-45 the value of the Reciprocal Aid to U.S.A. is expected to amount to Rs. 81 crores.

4. Tax Revenue.

The following statement shows the revenue of the Central Government under the more important heads :

Table I. 5.

		1938-39	1943-44 (Budget)	1944-45 (Budget)
Customs	...	40·5	30·0	28·0
Central Excise Duties	...	8·7	25·4	40·9
Corporation Tax	...	2·0	42·8	81·6
(Excess profits tax)	...	...	(33·8)	
Taxes on income other than Corporation tax	...	13·7	59·2	77·2
(Excess Profits tax)	...	...	(6·2)	

The customs revenue has contracted. The budgeted receipts under this head in 1944-45 are 28 crores as against 26 crores in 1943-44 (Revised estimate). The Central Excise Duties include, chiefly, duties on motor spirit, kerosene, sugar, matches, tobacco, artificial *ghi*, tea, coffee and betel nuts. A provision for about Rs. 159 crores under Corporation tax and Income tax has been made in the budget for 1944-45.

The Excess Profits Tax was first imposed in the budget for 1940-41 at the rate of 50% on all abnormal war profits above a taxable minimum of Rs. 30,000 earned since September 1, 1939. In the budget for 1941-42 the Excess Profits Tax was raised to 66⅔%.

In the supplementary budget for 1940-41, a 25 % surcharge was imposed on all taxes on income, including Super-tax and Corporation tax. In the budget for 1941-42. the rate of sur-charge was increased to 33⅓%, and in the budget for the following year, to approximately 50%.

Before May 1943 the State was taking 80 per cent of the profits, 66⅔% as E.P.T. and 13⅓% as income tax and super-tax. Under an ordinance issued in May 1943, 13⅓% of the

remaining 20% is compulsorily deposited with Government, leaving 6⅔% excess profits to be used for the distribution of dividends or current consumption.

In the budget for 1944-45 the rates of income tax on incomes above Rs. 10,000 have been further increased, but the taxable minimum has been raised from Rs. 1,500 (the first slice of income under the 'Slab' system) to Rs. 2,000.

Thanks to increase in the rates of the income-tax, the excess profits tax and the sur-charges, the proportion of taxes on income to total tax revenue has risen from about 24% in 1939-40 to 66·4 per cent at the present time (158·8 crores out of 239·3 crores in the budget for 1944-45).

5. The Gap.

Not all war expenditure is incurred on Indian account; more than half is incurred by the British and Allied Governments. The expenditure debitable to the Indian budget, we are told, has been fully met by taxation and borrowing throughout the period of the war. When increased Government expenditure is met by taxation and loans, the sums of money paid out by Government to finance its purchases are balanced by the return of money to Government in the form of taxes and loans, or there is no gap between the money which flows out and the money which flows into Government coffers. In India, however, at present, there is excess of expenditure, due to purchases on behalf of the British and Allied Governments, which is not covered by taxes or loans. Government expenditure thus exceeds the purchasing power which flows back, or is re-absorbed. A gap is thus created between the purchasing power created and the purchasing power re-absorbed.

Government Awareness of Dangers of Inflation in 1944. In the course of his budget speech for 1944-45 the Finance Member said: "We have all become conscious of the dangers of inflation, an awareness which has been heightened by the series of anti-inflationary measures which Government themselves have launched and which are in operation to-day, contributing in various ways and degrees to the desired result." There were no uncovered budgetary defects. "But," continued the Finance Member, 'what mattered from the point of view of preventing inflation is that the re-absorption of purchasing power should be adequate to the total Government outlay, and our troubles have arisen from the fact that

we have not at all times been able to raise sufficient rupees from the market to finance the recoverable war-expenditure". (The estimate in the budget for 1943-44 of war expenditure recoverable from the British Government was 346 crores).

No Awareness of Dangers of Inflation in 1943. Speaking at the end of February 1944 the Finance Member showed his awareness of dangers of inflation in unmistakable terms. Speaking a year before, when presenting the budget for 1943-44, he seemed to be unaware of such dangers. And yet, at that time, the financial situation was the same as a year later, that is, Government were meeting expenditure debitable to Indian revenues by taxation and loans, and recoverable expenditure through the expansion of the note circulation. In 1943 Government took the view that there was credit inflation if Government borrowed from the Reserve Bank "for making up the revenue deficits or for augmenting governmental balances for the purposes of meeting disbursements." Governments did not adopt that course, and therefote there was no credit inflation. All that had happened was that expansion and intensification of Government's war activitities involved cash payments " to an ever-widening circle of recipients in return for labour and raw material or services." The Reserve Bank obligingly furnished the cash needed over and above that obtained through taxation and loans.

The Finance Member explained that "not all the Government disbursements on war purposes necessarily or proportionately contribute to a rise in prices". He further stated that "in assessing the significance of a rise in prices, it is also necessary to remind ourselves that we did not start from an optimum price level, and that the prices of many essential articles, particularly agricultural commodities, had been by general consent unduly depressed for years prior to the outbreak of hostilities, and the problem had been not how to keep them from rising but how to stimulate them".

These words were spoken at the end of Feb. 1943. A few months later starving men, women and children began to drop down dead in the streets of Calcutta.

6. A statement by 20 Indian Economists.

Deaths by starvation helped to arouse in Government awareness of the dangers of inflation. Possibly a statement

issued by 20 Indian economists in April, 1943, also contributed in some measure to that result. "The Government seems to act", the economists complained, "as if it is enough for it to take care of its own budget deficit, while meeting the needs of the British Government by printing more notes". Counting in the finance provided to meet expenditure on behalf of the British and Allied Governments, there was 'a net inflationary gap' in India's finances, which was being filled by the creation of more currency. "The inflation in India is, therefore a deficit-induced, fiat money inflation." The inflationary spiral was at work in India.

The statement called for immediate and drastic measures to check inflation. The gap was to be closed by increased taxation and borrowing. The statement suggested the raising of taxation to 'the highest practicable pitch, adjusted to shoulders that can best bear it', a much steeper progression in income tax rates, the institution of a comprehensive scheme of compulsory savings, and a rigid control of all investment outlets.

As if in response to the demands of the twenty Indian economists, Government, as we have seen, issued the Excess Profits Ordinance, and also the Capital Issues Control Order which, while seeking to control the growth of mushroom companies, is a measure of investment control.

Steeper income tax rates form part of the budget proposals for 1944-45. Government loans are attracting larger sums than ever before. Prize bonds will net in considerable sums. A scheme has been evolved providing for the employment of authorized agents on a commission basis whose function will be to collect money for investment from villagers, purchase certificates etc. on their behalf, and deliver them in the villages. Savings bureaux are to be established in all important towns and extensive propaganda will be undertaken to promote saving and investment.

A good point was made by the Indian economists in their statement : the effect on prices is just the same whether the paper money created meets an Indian budget deficit, or war expenditure incurred in India on behalf of the British Government.

It is interesting to find the Finance Member, who denied that there was any inflation in 1943, admitting in 1944 that

"his greatest regret would be that this measure of inflation should have occurred during the period of his stewardship." (Finance Member's reply to the budget debate, 1944-45).

7. Expansion of the Note Circulation.

Note circulation (excluding Burma) has been steadily and continuously mounting month after month since October 1941. The best representation of the trend is by means of a straight line, which has the equation:

$$y = 567{\cdot}83 + 21{\cdot}79\ x$$
$$(x = 0 \text{ for December, } 1942)$$

If there is no change in the conditions governing the expansion of the note circulation, it may be expected to rise to 1178 crores in April 1945:

Table I. 6.

Note circulation (excluding Burma)

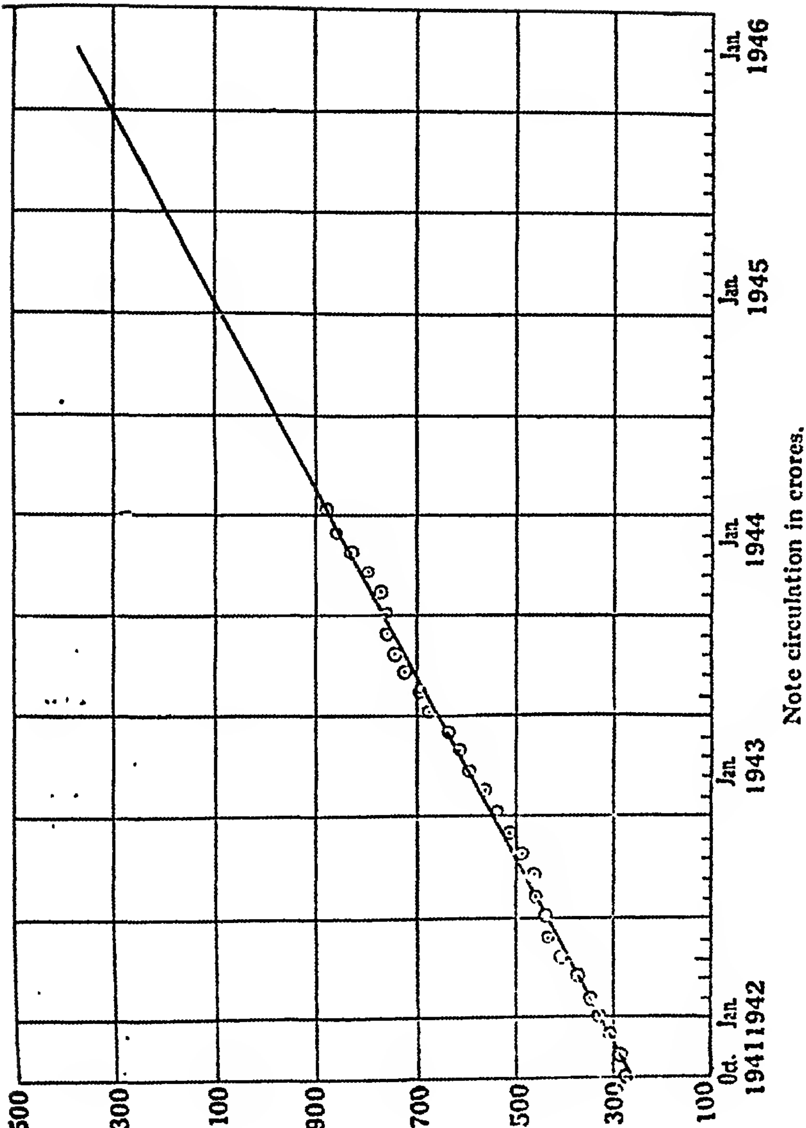
Figures in Crores

	1941		1942		1943		1944		1945
	Actual	Calculated	Actual	Calculated	Actual	Calculated	Actual	Calculated	Calculated
Jan. ...			328	328	588	590	858	851	1113
Feb. ...			344	350	610	611	808	873	1134
March ...			375	372	636	633		895	1156
April ...			402	394	667	655		916	1178
May ...			425	415	698	677		938	
June ...			439	437	720	699		960	
July ...			450	459	738	720		982	
August ...			468	481	754	742		1003	
Sept. ...			488	502	760	764		1025	
Oct. ...	274	263	509	524	774	786		1047	
Nov. ...	284	285	535	546	794	808		1069	
Dec. ...	304	306	561	567	822	829		1091	

For April 1945:

$$y = 567{\cdot}83 + 28 \times 21{\cdot}79 = 567{\cdot}83 + 610{\cdot}12 = 1177{\cdot}95.$$

Conditions may change. The need for creating more paper money may cease. Or loss of confidence may increase the velocity of circulation, causing a more rapid rise of prices, which will lead to the creation of more paper money.



Note-circulation in Crores.

Fig. 1.

Showing a straight line fitted to note-circulation from Oct. 1941 to Feb., 1944. The equation to the fitted straight line is

$$y = 567.83 + 21.70x$$

($x = 0$ for Dec. 1942)

The expected note circulation is not given by way of prediction, but to indicate the trend, assuming that present conditions continue.

Note circulation and wholesale prices.

The following statement shows the rise of prices and the increase in note circulation (excluding Burma) between September, 1941 and September, 1943.

Table I. 7.

	Note circulation crores (x)	Wholesale prices* (y)	Wholesale prices, calculated.	d
September 1941 ...	266	149	150·14	+1·14
December 1941 ...	304	154	152·99	−1·01
March 1942 ...	375	153	163·99	+10·99
June „ ...	430	182	180·22	+1·78
September 1942 ...	488	198	196·68	−1·32
December „ ...	561	238	227·74	−10·26
March 1943 ...	636	272	267·77	−4·23
June „ ...	720	319	322·37	+3·37
September 1943 ...	760	349	352·00	+3·00
				−18·50
				+18·60

In Fig. 2 price indices are plotted against the note circulation of the corresponding month. The law connecting x (note circulation) and prices (y) has the form :

$$y = 189{\cdot}33 - {\cdot}3419x + {\cdot}0007315x^2$$

What is y when $x = 760$?

$$y = 189{\cdot}33 - ({\cdot}3419 \times 760) + ({\cdot}0007315 \times 577600)$$
$$= 189{\cdot}33 - 259{\cdot}844 + 422{\cdot}514 = 189{\cdot}33 + 162{\cdot}67$$
$$= 352{\cdot}00$$

The deviations (shown in the last column) of calculated from observed values are small, except in two cases, and the curve may be considered a good fit.

It means that, in the absence of measures to control the rise of prices, one would have cheerfully contemplated the rise of wholesale prices to about 579 when the note circulation increased to 1000 crores :—

$$y = 189{\cdot}33 - ({\cdot}3419 \times 1000) + ({\cdot}0007315 \times 1000000)$$
$$= 189{\cdot}33 + 389{\cdot}60 = 578{\cdot}93$$

* Calcutta series, 1914 = 100.

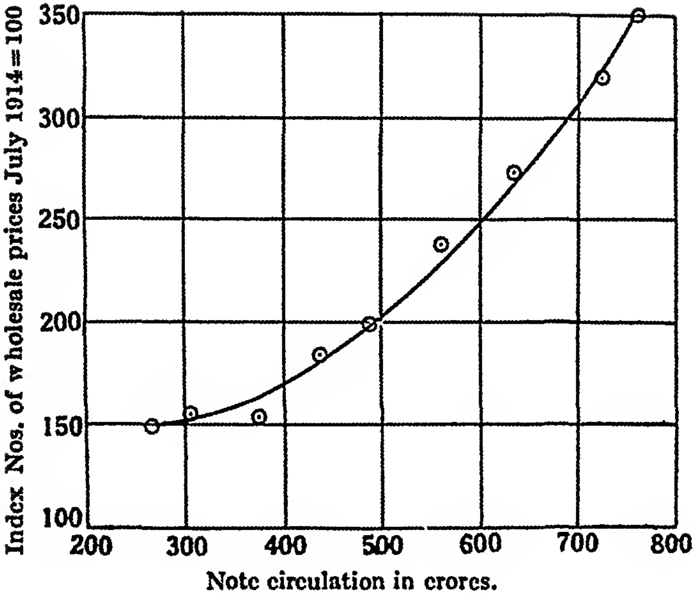


Fig. 2.

Showing the correlation between note-circulation and wholesale prices in India from Sept. 1941 to Sept. 1943. The equation to the fitted curve is

$$y = 189{\cdot}33 - {\cdot}3419x + {\cdot}0007315x^2.$$

The upward trend of prices has been checked and prices have fallen since September 1943.

8. The Reserve against the Note Issue.

The following figures have been taken from the Reserve Bank return, Issue Department. They are averages of Friday figures.

Table I. 8. (*Lakh Rs.*)

	September 1939	February 1944
Notes held in the Banking Department ...	21,82 (10)	9,90
Notes in circulation ...	196,14 (10,08)	867,58
Total ...	217,96 (10,18)	877,48
Gold coin and bullion ...	44,42	44,42
Sterling Securities ...	60,50	761,08
Rupee Coin ...	75,66	13,65
Rupee Securities ...	37,38	58,33
Percentage of gold and sterling securities to total notes issued ...	48,14	91,80

(Burma figures in brackets)

It is evident that the note circulation has been expanded against the backing of sterling securities. There has been no change in the gold holding of the Reserve Bank.

The role of rupee securities in the expansion of the note circulation at the present time is *nil*. Since November 1943 the amount of rupee securities in the Reserve has been maintained at a constant figure—58,33 lakhs. But on some occasions a reduction in sterling securities was made good by an increase in rupee securities. For example, sterling securities decreased from 267,37 lakhs in February to 207,35 lakhs in March 1942, the note circulation, including Burma, rising from 372,95 lakhs to 401,95 lakhs. The rupee securities increased from 41,50 lakhs in February to 133,76 lakhs in March 1942.

That rupee securities cannot be ignored altogether in the discussion of the question becomes apparent when the figures of note circulation (y) are plotted on graph paper against sterling securities only (x). The points move irregularly. A great part of this irregularity is removed when the note circulation is related to the sum total of rupee and sterling securities. This is illustrated in Fig. 3. All points, with two exceptions, practically lie on the straight line with the equation

$$y = 47{\cdot}4656 + 1{\cdot}0009x$$

In January 1944 there were in the Reserve of the Issue Department sterling securities of the value of 743 crores, and rupee securities of the value of 58 crores, a total of 801 crores, which is our x.

Table I. 9.

Securities in the Issue Dept. of the Reserve Bank and Notes in circulation : Figures in Crores.

	Sterling securities	Rupee securities	Total securities	Note circulation (actual)	Note circulation, calculated
May 1941	113	91	204	255	252
Sept. „	135	77	212	266	260
Jan. 1942	244	42	286	328	334
May „	251	144	395	425	443
Sept. „	325	102	427	488	475
Jan. 1043	364	178	542	588	590
May „	525	124	649	698	697
Sept. „	635	78	713	760	761
Jan. 1944	743	58	801	852	849

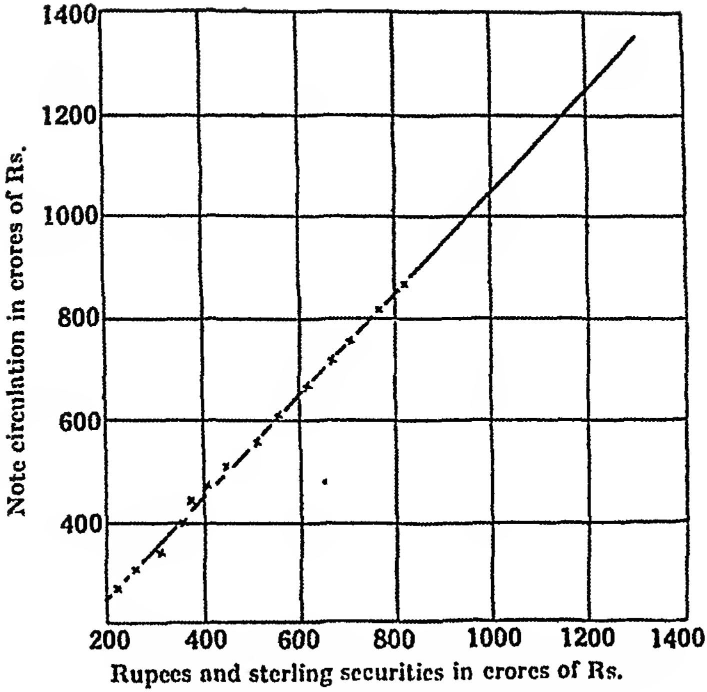


Fig. 3.

Showing the correlation between rupee and sterling securities in the Issue Department of Reserve Bank and the note circulation between May 1941 and Jan. 1944 The equation to the fitted straight line is

$$y = 47{\cdot}4656 + 1{\cdot}0009x.$$

$$y = 47{\cdot}4656 + 1{\cdot}0009 \times 801 = 47{\cdot}4656 + 801{\cdot}7209 = 849{\cdot}1865$$

The actual note circulation in Jan. 1944 was 852 crores.

9. The non-monetary Gap: the Gap between Production and Consumption.

So far we were concerned with the monetary gap, to which general attention was drawn so emphatically in the statement issued by the twenty Indian economists—the gap between the purchasing power required by the Government to finance purchases, not on its own behalf, but on behalf of the British Government, and the purchasing power made available by taxation and loans. This gap, as we have seen, was filled by the creation of more paper money. At the present time some of this gap is being filled by the sale of gold by the Reserve Bank on behalf of the United Kingdom and the United States.

A far more important gap, which is not so easy to fill, is that between consumption and production, or between the total demand and the available supply. In explaining the rise of prices, this gap is of far greater significance than the monetary gap. The statement of Indian economists completely ignored it.

10. How inflation causes a rise of prices.

When the amount of money in circulation increases, and prices rise, the two are easily connected as cause and effect—inflation being the cause and rise of prices the effect. But it is necessary to understand clearly why inflation causes prices to rise. The war has not yet ended, and we have not seen the end of inflation either.

An increase in the quantity of money in circulation can act on prices only through the channels of supply and demand. More money in circulation means that demand has increased. If supply does not increase *pari passu*, prices must rise to equate demand and supply.

The financing of war is really the financing of Government purchases Government demand for goods and services increases enormously in war-time; the available supply is fixed at any given time. If more and more of the given resources are diverted to war purposes, supplies available for civilian use are necessarily restricted. Equilibrium between supply and demand in these conditions is restored inevitably by a rise of prices. Another factor in the case of India, was decline in imports and increase of certain exports, as we shall presently see.

The Finance Member of the Government of India was perfectly aware of the gap between production and consumption. In the course of his budget speech for 1943-44 he referred to the failure of the critics of Government policy to distinguish between pure credit inflation and the temporary situation in which an increase in the volume of purchasing power impinges for a time on a stationary or diminishing volume of consumable goods."

11. Two Stages of Inflation.

Following the Finance Member we may distinguish between two stages of inflation. In the first stage, inflation is an expression of increased demand for goods and services—a means employed to effect the diversion of supplies from civil to military purposes. In the second stage, when there

is loss of confidence in the currency, velocity of circulation increases enormously, and the rise of prices becomes a measure of the depreciation of money. The state of the currency in several European countries in the years following the Great War provides an illustration of the second stage of inflation. In India there is no loss of confidence in the currency, in fact the great rise of prices, in 1943, coincided with Allied victories.

The war placed a strain on our resources which they were not able to bear. Lord Wavell urged caution in September, 1943. Care was to be exercised in putting increased burdens on India "lest our whole base becomes unstable or collapses."

12. Restoring the Balance between Production and Consumption.

The only way to restore the balance between production and consumption is either to increase production or to reduce demand. Particularly in the case of necessaries such as food, the gap is not filled by such methods as raising taxation to the highest practicable pitch, re-absorption of purchasing power by means of loans, or the most rigid control of investment outlets. These measures affect the relatively well-to-do classes in a country. Heavy taxation and increased borrowing will reduce the consumption of luxuries, such as liquors, motor cars, Persian carpets, radio sets and so on. Their prices may fall, but the consumption of food will not be affected—enough purchasing power will always be left with the relatively well-to-do for that purpose.

The problem of rise of prices, in the first stage of inflation, is thus essentially a problem of scarcity, artificially created by the diversion of supplies to war purposes.

13. Inflation as an Explanation of Deaths by Starvation.

Death by starvation may be explained in terms of inflation. The explanation would run as follows. Inflation causes a rise of prices, but incomes rise very unequally. Those whose incomes have failed to rise sufficiently are not able to pay the high price of food. They starve and die because of lack of purchasing power. The explanation, it will be noticed, is in monetary terms.

Suppose there is a real famine. Prices rise and the poorer classes, not being able to buy food at the prevailing prices, starve, and die. Deaths by starvation in a famine may also be explained in monetary terms.

The explanation is irrational. Prices rise in a famine to equate demand and supply. Supply being less than demand, some have to go without food. Lack of food is the real cause of distress. The rise of prices is only an expression of lack of food.

There is no essential difference when a famine is brought about by artificial means. This may be due to heavy Government buying for military stores, or for export, or decline in necessary imports or, in a given area, to lack of transportation facilities. Hoarding and profitereing are of minor importance. They begin when scarcity has begun to be felt and a rise of prices is apprehended.

14. The Symptom and the Disease.

In explaining the rise of prices in war-time we must not confound the symptom with the disease. Let us take a simple illustration. Suppose you meet with an accident and break your arm or leg in several places. You get fever. A doctor is called in. He feels your pulse and, ignoring the broken limb or limbs, says, "I know what is wrong with you—fever!" and he makes you swallow a large dose of quinine. The result will be gangrene and death. A symptom, fever, has been mistaken for the disease, the broken limb.

The rise of prices, except when there is depreciation of paper money as such on account of loss of confidence, is a sign and a symptom of disequilibrium between demand and supply, or of a gap between consumption and production. Monetary remedies are of no avail. Paper inflation may be totally avoided, and supplies of food-stuffs and raw materials acquired by the sale of gold to peasants. Or Government may requisition stocks without paying for them. There will be no inflation in this case, but prices must still rise to equate demand and supply.

15. Price of Wheat and Rice.

We shall examine the agricultural situation, as affected by the war separately, but attention may be drawn here to the explanation of the rise in the price of wheat and rice offered by the official *Review of the Trade of India* for 1941-42.

Wheat: "The exports of wheat including wheat flour amounted to about 80,000 tons in 1939-40. In 1940-41 they

totalled 140,000 tons whereas in 1941-42 they were well over

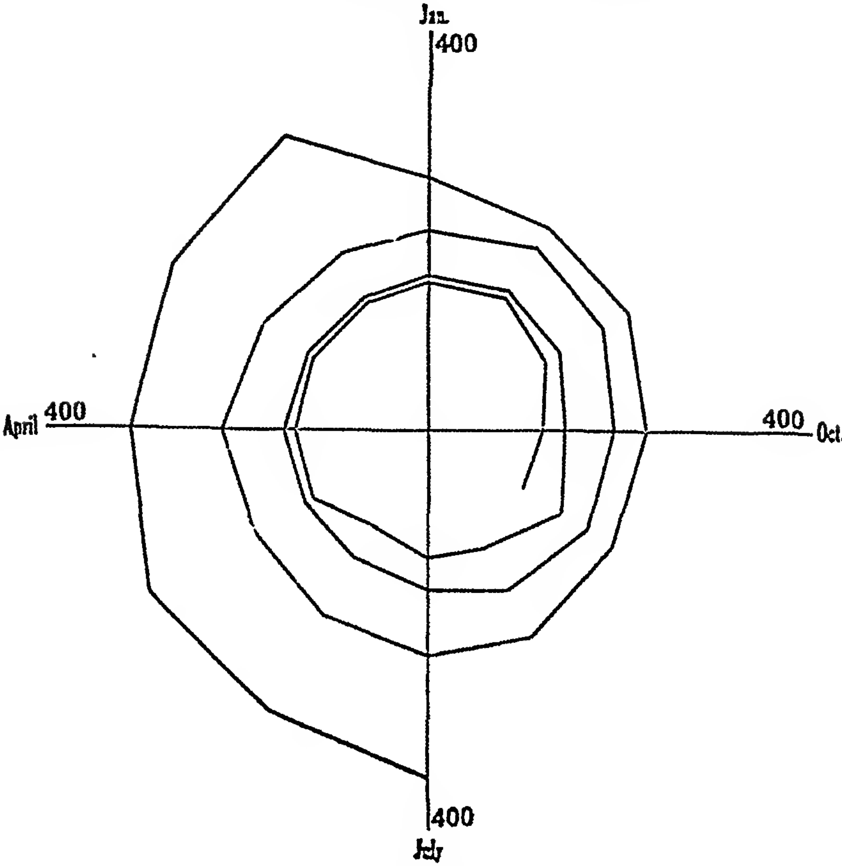


Fig. 4.

Showing the expanding spiral of wheat prices between Sept, 1939 and July, 1943. Base 1938-39=100.

	Index No.
Sept. 1939	117
July 1940	117
,, 1941	148
,, 1942	214
,, 1943	346

Source :—Report of the Foodgrains Policy Committee, p. 90.

310,000 tons. These figures do not include exports on behalf of Defence Services". Exports of wheat increased from India as the Near East could not be supplied from Australia on account of lack of shipping. The *Review* adds: "Apart from these heavy exports the demand in India itself both on

account of the military and the civil population kept on increasing, and towards the middle of 1941 there were unmistakable signs of a comparative shortage of this commodity".*

Rice. During pre-war years, India imported about 1¼ to 1½ million tons of rice annually mostly from Burma, or about

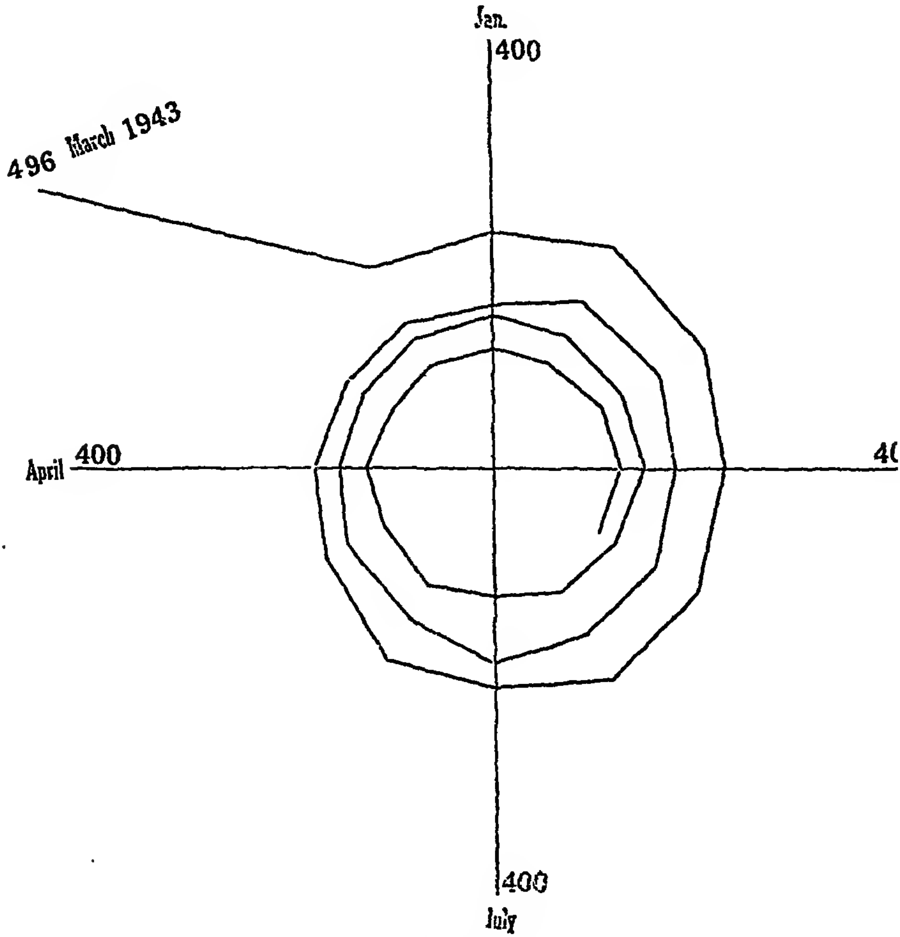


Fig. 5.

Spiral diagram showing the rise in the price of rice between Sept, 1939 and March, 1943. 1938-39=100.

5 to 7 per cent of the total India production. The imports of rice from Burma in 1941-42 declined to 982,000 tons as compared with 1,173,000 tons in 1940-41. "Exports on the

* P. 14.

Monthly average index numbers. Rice

		1939	1940	1941	1942	1943
Jan.	...	—	110	141	151	218
Feb.	...	—	114	138	158	218
March	...	—	114	139	159	496
April	...	—	117	146	169	634
May	...	—	117	152	173	780
June	...	—	121	163	207	951
July	...	—	119	180	207	951
August	...	—	128	170	218	
September	...	111	133	169	218	
October	.	117	133	171	218	
November	...	117	138	174	218	
December	...	114	140	172	218	

Source :—Report of Foodgrains Policy Committee, p. 90.

other hand showed a substantial increase, rising from 251,000 tons during 1940-41 to 304,000 tons during the year under review [1941-42]. This was due to the shortage of rice in countries which previously depended upon Burmese exports and whose trade with India was still open (*e.g.*, Ceylon and the Union of South Africa)."* The Burmese trade came virtually to an end after December, 1941 and the net imports in 1941-42 amounted only to 648,000 tons. The *Review* adds: "The scarcity of the supplies of rice and wheat due to these factors raised their prices to abnormal levels and wheat prices were centrally controlled at more than double the pre-war rates."† The central control, so far from bringing down prices, raised them, as the Central Government started buying wheat at prices Rs. 2 per maund higher than the controlled rate.

In the case of food a relatively small shortage can raise prices very considerably.

16. Cotton Cloth.

The following statement shows the imports and exports of cotton piece-goods :—

	Millions of yards		Net imports −
	Exports	Imports	Net exports +
1938-39	177	647	−470
1939-40	221	579	−358
1940-41	390	447	− 57
1941-42	772	181	+591

What is the explanation of net exports of cloth from India in 1941-42, an unprecedented phenomenon under British rule?

* P. 37.
† P. 14.

The exports of cotton goods from the United Kingdom were rigidly controlled and were mainly diverted towards 'hard currency' countries. The Indian textile industry was called upon to make up the deficiency of supplies in India owing to the cessation of Japanese imports and the decline in British imports, and in addition to export large quantities of goods to Australia, the Far East and the South African countries, which had become dependent on Japanese and British imports. This was not all. The *Review of the Trade of India for 1941-42* says:

"Another factor of equal importance was the increasing volume of orders placed by the Government of India and the Eastern Group Supply Council with cotton textile mills in India. This industry occupied the first place in the scale of orders placed by these organisations, and mills were called upon to supply new qualities of cloth for specialised purposes, such as cotton rugs, army blankets, parachute cloth, etc. The total value of orders placed by the Supply Department up to 31st December, 1941, since the outbreak of the war amounted to Rs. 50·4 crores. The figure does not include the orders placed by the Eastern Group Council and some of the purchases made directly by the Defence Services on their own behalf. The pressure of war orders was so great that several mills were reported to be working exclusively for these organisations."*

These facts enable us to view the 'inflationary spiral' in a new light.

Index Numbers of Wholesale Prices, Calcutta.

		1939	1940	1941	1942	1943
Jan.	...	—	130	121	155	250
Feb.	...	—	126	119	153	253
March	..	—	121	123	153	272
April	...	100	121	127	157	293
May	...	101	117	130	169	325
June	...	101	114	137	182	319
July	...	100	114	150	182	332
August	...	100	115	151	192	345
Sept.	...	114	119	149	198	349
Oct.	...	118	121	151	209	—
Nov.	...	131	122	157	227	—
Dec.	...	137	120	154	238	—

* P. 49.

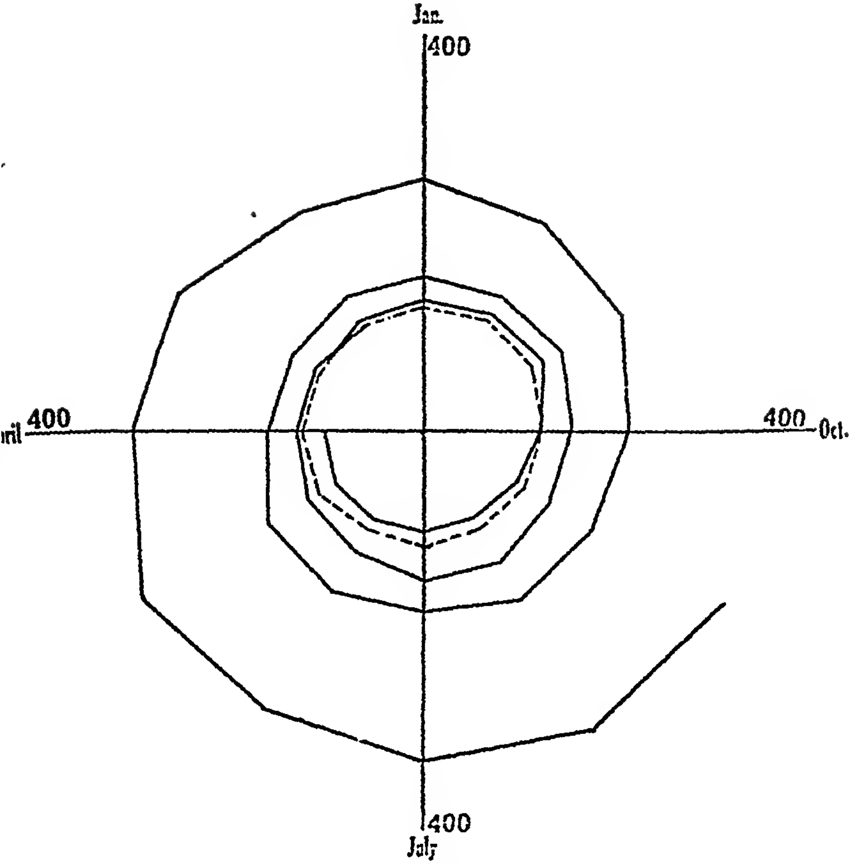


Fig. 6.

Spiral diagram showing the rise in wholesale prices (Calcutta series of index numbers) from April 1939 to Sept. 1943. July 1914 = 100.

17. The Rise in General Prices.

The best known series of index numbers of wholesale prices in India is the Calcutta series. The rise of the general index number is shown below :

		End of July 1914 = 100 Annual average.
1938	...	98
1939	...	108
1940	...	120
1941	...	139
1942	...	185
1943	...	307

According to these index numbeis the rise of prices had reduced the pnrchasing power of the rupee in 1943 to one-third of what it was in July, 1914, or in August, 1939 (index number = 100).

Actually it is difficult to form an exact idea of the depreciation of the rupee in terms of goods and services. On account of difficulties of transportation, the purchasing power of the rupee is different in different parts of the country. Secondly, many goods have disappeared from the ordinary market and 'black market' prices are not taken into account in the construction of index numbers.

The general average rose to its highest point (349) in September, 1943, after which it fell :

		All Commodities.
September, 1943	...	349
October ,,	...	334
November ,,	..	314
December ,,	...	301
January, 1944	...	297
February ,,	...	300
March ,,	...	298

Rise of Prices by Groups of articles :

		Annual averages for 1943 (July 1914=100)
Food grains		
Cereals	...	396
Pulses	...	373
Sugar	...	319
Tea	...	166
Other food articles	...	537
Oil seeds	...	270
Oil, mustard	...	216
Textiles :		
Jute, raw	...	123
Jute, manufactures	...	188
Cotton, raw	...	174
Cotton manufactures		*
Other textiles (wool and Silk)	...	215
Hides and Skins	...	97
Metals	...	320
Other raw and manufactured articles	...	202
Building materials (teak wood)		*
All Commodities	...	307

* Price quotations not available.

The greatest rise seems to have occurred in the case of food articles and metals. The fall of 3 points in the case of hides and skins is remarkable. The position in regard to

cotton manufactures and teak wood is not known. It is stated that "owing to market quotations for a number of articles not being available for some time past, the whole position relating to these index numbers is now under examination." The re-examination may lead to revision of the index numbers, and it would be unwise to base any rigid conclusions on them.

But one thing is clear. There has been a greater rise of prices and in the cost of living in India than in other countries. We borrow the following index numbers for 1943 from the *Eastern Economist* (April 7, 1944, p. 557).

		Cost of Living	Wholesale prices.
Union of S. Africa	...	134 (VI)	149 (VI)
Canada	...	130 (IX)	137 (IX)
U.S.A.	...	125 (IX)	135 (IX)
Japan	...	133 (VI)	142 (VI)
Germany	...	114 (VIII)	109 (VIII)
United Kingdom	..	124 (VIII)	167 (IX)
Australia	...	114 (VII)	138 (VIII)
New Zealand	...	100 (VI)	215 (VIII)

(The Roman numerals in brackets indicate the months of the year to which the figures relate.)

Compared to our two or three hundred per cent rise in food prices (even more in particular cases) in 1943, retail food prices in the United Kingdom on December 1, 1943, had risen by only 22 per cent as compared with Sept. 1, 1939. During the same period the price of bread rose by 9 %, tea 21 %, sugar 32 %, milk 33 %, fresh butter 21 %, eggs 1 %, and potatoes by 6 % (*London Economist*, January 8, 1944, p. 59).

Why have our food-prices risen so sharply ? In the United Kingdom, while there is diversion of resources to war-purposes, the welfare of the civil population has not been ignored, and secondly, there is effective price control and an efficient system of rationing in force. In India resources have been recklessly diverted to war-purposes (of which deaths by starvation are a proof), and effective price control and rationing are yet to come.

18. Working Class Cost of Living Index Nos.

	August, 1939	October, 1944.
United Kingdom, July, 1914=100 ...	155	199
Bombay, year ended July, 1934=100 ...	105	248
Ahmedabad, year ended July, 1927=100	73	240
Sholapur year ended Jan. 1928=100 ...	73	210
Nagpur, Jan. 1927=100 ...	64	175
Jubbalpore, Jan. 1927=100 ...	58	174
Patna, average 1910-14=100 ...	109	391
Cuttack " " =100 ...	103	365
Madras, year ended June, 1936=100 ...	98	184
Lahore, Jan. 1931—Dec. 1935=100 ...	120	384
Cawnpore, August, 1939=100 ..	100	349
Bangalore, year ended June, 1936=100...	—	182

(*Bombay Labour Gazette* for Jan. 1944, p. 341).

An exact comparison of the rise in the cost of living at different centres in India is rendered difficult by the different periods chosen as the basis of comparison in each case. With base 1939=100, the rise in the working class cost of living in Feb. 1944 was as shown below :—

Bombay ...	219	Nagpur ...	289
Ahmedabad ...	288	Jubbalpore ...	323
Sholapur ...	274	Lahore ...	310
Cawnpur ...	298	Madras ...	203

Working class cost of living index numbers are weighted averages of 5 items (food, fuel and lighting, clothing, house rent, and miscellaneous). Of these house-rents alone show no change.

Effect of the Rise of Prices. Many classes of 'fixed incomists' today are living in India in a state of semi-starvation. One may think of *atta* selling at a little over 3 seers per rupee, of milk at about 8 annas per seer, and of fire-wood at about Rs. 2/8 per maund.

Government has granted liberal allowances to its servants. Railway workers and others engaged in war-work have probably not much to complain of. But no statistics of real wages of any class of workers are available.

Producers have gained. This is true also of hand-workers. The war has created a demand for hand-made goods of all kinds. Business profits have risen and organised industry, in spite of increased taxation, is prosperous.

The rise in the price of food-grains and raw materials has lightened the burden of rural debts and Government dues. The agriculturist has to pay more for manufactured goods,

but their consumption by the ordinary villager is restricted. It is the middle-classes living in towns which have been hit hardest by the rise of prices. Generally speaking food-prices have risen more sharply than the prices of manufactured goods which largely enter into the consumption of the rural masses.

The greatest gainer by the rise of prices is the non-working landlord. He has made more money out of the misery and starvation of the people than any one else. And he pays no excess profits tax either. The Punjab Government claim that the non-working landlord is a 'grower' A more accurate description of this class is 'exploiters' pure and simple.

20. Railways.

After a lapse of six years the railways showed a surplus in 1936-37; they started contributing to general revenues in 1937-38. The improvement since then has been continuous and phenomenally rapid. The railway contribution to the general revenues has risen from $4\frac{1}{3}$ crores in 1939-40 to no less than $31\frac{1}{3}$ crores in the budget for 1944-45. The anticipated surplus in the railway budget for 1944-45 is no less than Rs. 52 crores. This may be contrasted with the realised surplus of 1·21 crores in 1936-37 and of $4\frac{1}{3}$ crores in 1939-40.

The improvement is due to two causes. Railway freights and fares were increased in 1940.

The railway budget for 1944-45 included a proposal to increase railway fares further by 25 % from 1st April, 1944. The proposal met with bitter opposition in the Assembly and outside the Assembly, and it has not been given effect to. The increase in fares was urged on three grounds : (1) to restrict, so far as that may be possible, passenger travel, (2) effect a certain amount of deflation, and (3) to take a first step towards building up a fund for post-war reconstruction purposes.

It is doubtful if passenger travel would have been much restricted by the proposed increase in fares. Railway travelling in India was never a source of pleasure for the ordinary passenger : at the present time, it is a source of much discomfort. One travels to-day because one must.

In regard to deflation, the estimated increase in railway income from this source was about 10 crores. Considering the volume of the note circulation (897 crores on April 14,

1944) the effect of deflation amounting to 10 crores on prices would be *nil*. 'Deflation' in the same sense may be used to justify any increase in taxation.

Considering the flourishing condition of railway revenues there was little justification for the proposed increase in railway fares.

A more important cause of increase in railway revenue is increase in railway traffic.

1. The curtailment of coastal steamer services and the increase in sea fights resulted in a diversion to railways of much traffic which would normally have been carried by sea.

2. The rise in the price of petrol and other motor accessories reduced road competition to some extent and there was 'a considerable increase' in the movement of traffic by rail of raw cotton, raw jute, coal, wheat, timber and mineral ores.

3. The development of indigenous industries such as iron, steel, glass, jute, paper, and others, has also contributed to a rise in railway earnings.

4. Military traffic has enormously increased.

Railway expenditure has increased on account of the rise of prices. But economy campaigns have prevented it from increasing unduly. Construction of works, which would have normally been undertaken has been deferred. Job analysis, which continues on all the State-managed railways, has increased efficiency and reduced working expenses.

The Convention of 1924. As we have seen (Vol. I, p. 145), a convention was adopted by the Central Assembly in 1924 by which railway finance was separated from the general budget. Under the Convention the Railways were to make a fixed contribution to the general revenues.

This convention has ceased to operate from 1st April, 1943. In March, 1943, the Assembly adopted a resolution by which the surplus on commercial lines in 1943-44 was to be utilised to repay any outstanding loan from the Depreciation Fund and thereafter to be divided between the general revenues in the proportion of three to one. The loss on the strategic lines is to be borne by general revenues. And lastly, until a new convention is apopted by the Assembly, the surpluses on commercial lines are to be henceforth shared between the gereral revenues and railway reserves on the basis of their respective needs. Thus

the Convention of 1924 has been abandoned and the old position restored.

What are the reasons for this important change ?

The Railway Member in presenting the Railway Budget for 1943-44 said that the Convention had brought railway finances in peace-time "into a most parlous position." The Convention was inelastic, and to pay their fixed contibution to the general revenues the Railways had to raid their own reserves. In war-time, on the other hand, the Convention gave inadequate relief to the general tax payer, that is, the Railways under the Convention contributed less to the general revenues than they were able to. Thus the Convention failed both in peace-time and war-time.

The railways are now making heavy contributions to general revenues. As a compensation, the railways, in the opinion of the Railway Department, should be relieved of the burden of a fixed annual contribution regardless of whether a surplus is actually earned or not (as under the Convention of 1924), and secondly, apart from the contribution to the depreciation fund, at least 8 crores per annum should be set aside annually to railway reserves.

Presumably the new arrangements will continue during the war and a new settlement will be arrived at after the war.

Railway Budget in lakhs of rupees

		Accounts 1942-43	Budget 1944-45
State Railways			
A. Commercial lines.			
Gross Receipts.			
Passenger traffic earnings :			
Upper class	...	8,04	11,12
Third class	..	36,05	40,23
Other coaching traffic earnings	...	15,71	18,51
Goods traffic earnings	...	90,53	99,21
Sundry other earnings	...	4,02	4,50
Total earnings	...	1,54,35	1,79,56
Earnings of State Railways	...	1,54,35	1,79,56
Suspense	...	−98·18	—
Gross Receipts of State Railways	..	1,53,37	1,79,56

	Accounts 1942-43	Budget 1944-45
Gross Receipts of State Railways ...	1,53,37	1,79,56
Deduct		
Working expenses of State Railways ...	79,05	1,09,66
Surplus profits paid to Indian States and railway companies ...	84	73
Payments to worked lines :—		
(*i*) Net earnings ...	2,70	1,85
(*ii*) Subsidy; rebate etc, ...	5	2
Net Receipts ...	70,72	67,31
B. Strategic lines		
Gross Receipts ...	2,10	2,44
Deduct, working expences ...	2,50	2,77
Net Receipts ...	−40	−33
Total net Receipts, commercial and strategic lines ...	70,32	66,97
Government share of surplus profits ...	7	16
Total receipts, including interest on various Funds ...	73,75	71,54

General Statement of the Revenue and Expenditure met from Revenue of the Central Government. In lakhs of Rs.

	Accounts 1942-43	Revised Estimate 1943-44	Budget Estimate 1944-45
Revenue :			
Principal Heads of Revenue			
Customs ...	25,12	25,94	28,00
Central Excise Duties ...	12,75	25,65	40,91
Corporation Tax ...	31,40	63,68	81,61
Taxes on income other than Corporation Tax ...	43,46	54,84	77,20
Salt ...	10,91	9,00	9,25
Opium ...	75	90	80
Other heads ...	1,28	1,56	1,53
Total Principal Heads	1,25,67	1,81,55	2,39,30
Railways net receipts ...	73,75	73,31	71,54
Irrigation " ...	2	1	2
Posts and Telegraphs receipts	5,22	10,32	12,33
Debt Services ...	86	1,60	1,45
Civil Administration ...	1,09	1,38	1,43
Currency and Mint ...	5,25	10,07	9,99
Civil works ...	56	56	57
C.F. ...	2,12,42	2,78,79	3,36,63

	Accounts 1942-43	Revised Estimate 1943-44	Budget Estimate 1944-45
B.F. ...	2,12,42	2,78,79	3,30,63
Miscellaneous ...	2,34	2,38	1,62
Defence services ...	3,92	12,70	10,34
Contribution and Miscellaneous adjustments between Central and Provincial Governments.			
Extraordinary items ...	16,44	15,31	11,40
Total Revenue	2,35,12	3,09,18	3,59,99
Deficit	1,12,17	92,43	54,71
Total	3,47,29	4,01,61	4,14,70

Expenditure (In lakhs of Rupees)

	Accounts 1942-43	Revised Estimate 1943-44	Budget Estimate 1944-45
Direct demands on the Revenue ..	5,11	6,28	7,30
Capital outlay on salt works	—64	2	2
Railways, interest and Miscellaneous charges ...	53,63	41,04	40,35
Irrigation ...	8	9	13
Posts and Telegraphs	72	92	1,02
Debt services ...	9,97	11,59	20,14
Civil Administration ...	16,76	18,88	18,60
Currency and Mint ...	1,75	2,44	2,34
Civil works and Miscellaneous Public improvements ...	3,07	2,73	3,65
Miscellaneous ...	4,48	4,86	6,73
Defence services ...	2,18,54	2,75,31	2,86,95
Contributions and Miscellaneous adjustments between Central and Provincial Governments. ...	2,77	6,01	4,51
Extraordinary items ...	30,41	31,59	22,86
Total Expenditure met from Revenue ...	3,47,29	4,01,61	4,14,70
Surplus	...	...	...
Total	3,47,29	4,01,61	4,14,70

APPENDIX A

Inflation. A dialogue

(No new point is made in this dialogue. But there is a great deal of confusion in our country regarding the causes of the rise of prices in war-time, and the dialogue may help in a clearer understanding of the subject.)

Teacher. The black market price of paper is about three times higher than the control price. Why ?

Student. There is hoarding and profiteering.

T. Was there hoarding and profiteerting before the war ?

S. No.

T. Why have dealers suddenly started to hoard ? They did not hoard before ?

S. No. There is hope of making a profit.

T. When are profits made ? Would there be profits if prices fell ?

S. No. Prices must rise.

T. Then dealers do not hoard in expectation of a fall of prices ?

S. No. They expect prices to go up.

T. Why ?

S. All prices have risen, and they may rise further.

T. We may discuss 'all prices' later. Why is the price of paper expected to rise ? Would the price rise if demand fell ?

S. No.

T. Or if supply miraculously increased ?

S. No, In fact there is a fall in production on account of shortage of coal.

T. And the scarcity cannot be relieved by imports ?

S. No. There is war, and lack of shipping.

T. Let us take another commodity, cotton cloth. Is there a black market in cloth ?

S. Certain qualities of cloth are unobtainable except in the black market.

T. The Economic Adviser's index for cotton cloth shot up from 218 in June, 1942, to 524 in May, 1943, a five-fold rise

of prices as compared with August, 1939. How would you explain it ?

S. Inflation. There is more money in circulation. All prices have risen and cloth is no exception.

T. We cannot ignore inflation, but we should be equally mistaken if we ignored particular causes acting on the price of cloth. Are there net imports of cotton cloth into India at the present time ?

S. That was so before the war. There are net exports now.

T. Why ?

S. Australia, the Far East and the South African countries, which were dependent on Japanese and British imports, are being supplied from India. Japanese imports into India have ceased and British imports have declined heavily.

T. But production has increased ?

S. Yes. But all the output of Indian mills is not available for the civil population. There are heavy Government orders and several mills are reported to be working on Government account.

T. And flannel could not have sold at over Rs. 30 a yard if Indian woollen mills had been working to meet the normal demand ?

S. No.

T. Then the laws of supply and demand may be invoked to explain the rise in the price of cloth ?

S. Yes. But there is also the general rise of prices. When all prices rise, we have been taught to suspect money as the culprit.

T. True. Very true. But when all prices rise, do they rise to the same extent ?

S. No. They do not. For example, in July, 1943, the index of cloth (1938-39=100) had risen to 493, of kerosene to 203, of wheat to 346 and of rice to no less than 951.

T. If inflation were a complete explanation of the rise of prices in war-time, all prices would rise equally ?

S. All prices never rise equally ; some rise more and others less.

T. But why ?

S. There may be particular causes in operation which affect some commodities but do not affect others.

T. Or do not affect others in an equal degree. Take rice as an example. Would hoarding and profiteering explain the ten-fold rise in the price of rice ?

S. There was shortage—Burma imports were cut off : the cyclone of Oct. 1942 reduced normal supplies and destroyed stocks ; disease affected the Aman paddy crop of Western Bengal. Nor can we ignore demand factors.

T. Then the explanation, again, is in terms of supply and demand ?

S. But not entirely. There is the general rise of prices. Surely everything cannot have suddenly become scarcer ?

T. Perhaps not. Let us, then, consider the general relation between the quantity of money and the level of prices. Which is cause and which is effect ?

S. Money is the cause and the general level of prices the effect ; prices have risen in consequence of the increase in the quantity of money in circulation.

T. The cause precedes the effect ; the effect follows the cause ?

S. Yes.

T. We are sitting in a room with a high, re-inforced concrete ceiling. If I said 'Ha ! Ha!' and the ceiling came down, which would be cause and which would be effect ?

S. (*Smiling*). That is not likely to happen.

T. And if I cleared my throat saying 'Ah'm' and you jumped out of the window, which would be cause and which effect ?

S. (*Smiling*). I am not thinking of committing suicide. The window is 30 feet above the ground level.

T. *Post hoc ergo propter hoc.*

S. I beg your pardon ?

T. The meaning is 'After this, therefore on account of this'—an old saying and a well known fallacy in logic. Phenomenon *B* follows phenomenon *A*. *A* is not necessarily the cause of *B* ?

S. No, not necessarily.

T. Both phenomena may be due to a hidden cause or causes independent of *A* and *B* ?

S. That is possible.

T. If the quantity of money in circulation increases and prices go up, the two phenomena may not be causally connected ?

S. But, then, how can prices go up ?

T. This is precisely what we are trying to find out. The role of money in war-time, or in a planned economy (war cannot be successfully waged without planning) is complex. Let us simplify conditions by getting rid of money altogether. What are the main functions of money ?

S. Money is a medium of exchange ; it is a common denominator of value.

T. Right. But life is possible without a medium of exchange and a common denominator of value. What do you call that *economy* ?

S. Barter.

T. Money is not indispensable to waging war ?

S. No great war in history has been waged in recent times without fiat money.

T. How is war waged with fiat money ? Surely you do not mean that packets of paper money are fired from big guns in place of shells, or dropped on the enemy from bombers in place of bombs ?

S. No. A war is waged with men and material.

T. With real resources, then, of which Government obtains possession. If there is no money, or in a barter economy, how would Government obtain command over real resources ?

S. Taxation is one way. Or Government may simply commandeer whatever it requires.

T. In a primitive community, then, the requirements of war would reduce supplies available for the civil population ? Commodities would grow scarcer ?

S. This is inevitable.

T. To obtain wheat or rice for consumption a labourer may have to work for longer hours than before ?

S. Yes.

T. And if rice is scarcer than wheat, he may have to work for longer hours still to obtain a given quantity of rice than a given quantity of wheat ?

S. Yes.

T. This means that the index of rice has risen more sharply than that of wheat?

S. Yes.

T. In terms of labour commodities have become more valuable. Labour itself may become scarcer?

S. Yes.

T. How would the rates of exchange between various commodities and services be determined under such conditions?

S. Obviously by relative degrees of scarcity.

T. Very good. These relative degrees of scarcity are an expression of the changed conditions of supply and demand?

S. Yes.

T. Then the explanation is in terms of supply and demand?

S. No other explanation is possible, because there is no money.

T. Now tell me if the situation is fundamentally altered by introducing money, that is, when Government uses 'created money' to obtain control over real resources to wage war? Are the laws of supply and demand suspended? Do they cease to operate?

S. Money does seem to introduce a change. For there was no rise of prices before the quantity of money in circulation began to increase. Therefore, we may speak of inflation as the cause of the rise of prices.

T. *Post hoc ergo propter hoc*?

S. Prices could not have risen otherwise.

T. Why is more money created?

S. To purchase war material, to divert labour to war purposes.

T. Would that make the supply of men and material for non-war employments more or less plentiful?

S. Less.

T. Then what is the real cause of the rise of prices? Inflation or the scarcity which it brings about?

S. It seems a profitless war of words.

T. Not entirely, from the practical point of view. Suppose people are starving for lack of food and going about naked for lack of clothing. How would you deal with the situation?

S. 'Tie up vagrant purchasing power;' 'raise taxation to the highest practicable pitch.'

T. Now I am not a millionaire, as you know. But I pay the income tax. Raise the income tax to the highest practicable pitch. I should still not be compelled to reduce my consumption of necessaries. A famine may occur in a money economy. Would you explain a famine in terms of goods or money ?

S. One might say that the supply of money was in excess of demand.

T. If you were the Governor of a province and there was a widespread failure of crops due to unseasonable rainfall, you would immediately relieve the scarcity by doubling the rates of the income tax and 'tying up vagrant purchasing power' ?

S. No. Want cannot be relieved thus.

T. What is true of a natural famine is equally true of man-made famine. No new principle is involved. 'Created money' is employed in war-time to achieve certain ends. It may be employed in peace-time to attain certain other ends, *e.g.*, the building up of heavy industry. 'Created money' has no effect on prices as such ; it acts on prices only through the channels of supply and demand.

S. But then the depreciation of paper money has no meaning ? Prices always rise on account of changed relations of demand and supply ?

T. Paper money may be said to depreciate when people lose confidence in it. Then it begins to act on prices directly. And then there is no limit to the rise of prices.

S. We have not reached that stage yet ?

T. There will be no need to ask that question when cotton is selling at Rs 1,000 a yard, a maund of wheat for Rs. 10,000 and a pair of shoes for Rs. 20,000.

S. Lord save us!

CHAPTER II

THE MONEY MARKET

Monetary conditions in India were easy until the outbreak of the war. When the war broke out in September, the inter-bank call rate, which had fallen to ¼ per cent in July, rose to 1¼% in Bombay, and the 3 months' deposit rate improved to 2½%. In October the restoration of the Bank of England rate to the pre-war level tended to ease the monetary situation. Throughout the period of the war, the fluctuations of the inter-bank call rate and the three months' deposit rate have been normal, that is, they have risen in the busy season and fallen with the return of the slack season.

In spite of scarcity of goods and rising prices of commodities, services and shares, easy money conditions have prevailed during the war. This is explained by the abundance of 'created money' with the people and restricted means of investing it.

The fortunes of war affect withdrawals from banks. There were hurried withdrawals from certain banks in September, 1939, but confidence was soon restored. In May, 1940, when Germany invaded Holland, banks got ready to meet possible withdrawals by increasing their cash resources and the call money rate rose from ¼ to ½% but the tension eased in July and the call rate fell to ¼% again. The average monthly demand liabilities rose steadily from April, 1941 to November, but there was a drop in December, possibly due to the outbreak of hostilities with Japan (December 14, 1941).

1. Scheduled Banks.

The consolidated position of the Scheduled Banks is shown by the statement on *p.* 39 :—

Larger balances are kept by the scheduled banks with the Reserve Bank, but the proportion of cash and balances with the Reserve Bank to demand and time liabilities has fallen on account of the disproportionately greater increase in the latter.

Scheduled Banks

(In crore rupees)

Average of Friday Figures	Feb. 1939 (including Burma)† crores	Feb. 1942	Feb. 1943	Feb. 1944
Demand liabilities	128 (6)	210	360	512
Time "	108 (4)	103	118	168
Cash "	6 (2)	10	15	24
Balances with R.Bk.	12	30	49	50
Cash and balances with R.Bk. as % of demand and time liabilities	7·66	15·20	13·25	12·10
Advances	122	116	111	168
Bills discounted	6	4	3	8
Advances and discounts as % of demand and time liabilities	54·16	37·22	23·77	28·71

Source: Statistical Summary issued by the Reserve Bank.

† Burma figures in brackets.

Bills and advances are the most remunerative assets of banks. Their proportion to total demand and time liabilities fell from 54·16% in February 1939 to 28·71% in February, 1944. The heavy fall is due to the abnormal increase in demand liabilities. Bills and advances sank to their lowest level in October 1942 when this proportion fell to 19·10. Since then they have steadily improved.

The fall in the proportion of bills and advances suggests that banks are making larger investments in Government securities. This they do for the sake of liquidity. It is estimated that on an average investment in Government securities amounts to over 50 per cent.

2. Contemplated Banking Legislation.

'Created money' has stimulated the growth of banks. The Ordinance, issued in May 1943, concerning capital issues, prohibited the floatation of new companies or the raising of any fresh capital by sale of shares, stocks, bonds and debentures without the previous consent of the Central Government. This applies to new banks as well. But, apart from this, comprehensive banking legislation is under consideration; the need for such legislation was emphasized by the Reserve Bank in 1939. Briefly the proposals are the following :

(*a*) A banking company must have Rs. 50,000 as minimum paid-up capital before it commences business.

(*b*) The subscribed capital shall not be less than half of the authorised capital, and the paid-up capital shall not be less than half of the subscribed capital.

(*c*) A banking company will be required only to issue ordinary shares, or, in the alternative, ordinary, preference, or any other kind of shares provided that the capital structure is such as to allow of voting rights in proportion to the capital contributed by each class of shares.

The object of this provision is to prevent the control of a bank from passing into the hands of a particular group. At present a portion of the capital is sometimes raised through preference shares without any voting rights, or the nominal value of the deferred shares is kept low and it is distributed among the promoters, who acquire thereby the same voting rights as ordinary share-holders who have paid much more for their shares. These and other devices enable an indivividual or group to control the management.

In examining the flood of recent bank floatations the Board of the Reserve Bank have also noticed a number of undesirable features in the organisation and management of new banks.

3. Branch Banking.

The followihg statement shows the development of branches of Scheduled banks since 1935 :—

		Total No. of banking Offices, including head offices in India and Burma.
31st December, 1935	...	723
" " 1936	...	828
" " 1937	...	1,138
" " 1938	...	1,125
" " 1939	...	1,277
30th June, 1940	...	1,322
31st December, 1941	...	1,454
30th June, 1942	...	1,405
" " 1943	...	1,600

As compared with 31st December, 1939, there was an increase of over 300 branches, etc., in 1943, while, as compared with 1935, the number of branches, etc., has more than

doubled. The number of scheduled banks was 70 at the end of October 1943.

4. Demand and Time Liabilities

The following statement shows the proportion per cent. of demand liabilities to the total of demand and time liabilities from 1936-37 to 1938-39.

Scheduled Banks

	Demand liabilities Crores.	Time liabilities Crores.	Total Crores.	Proportion of demand liabilities to total liabilities % — Actual %	Calculated Curve A	Curve B
1936-37 ...	128·6	101·3	229·9	55·9	55·92	55·86
1937-38 ...	132·8	109·0	241·8	54·9	54·78	54·67
1938-39 ...	123·8	103·3	227·1	54·5	54·70	54·78
1939-40 ...	132·6	102·0	234·6	56·5	56·51	56·55
1940-41 ...	155·8	101·1	256·9	60·6	60·30	60·26
1941-42 ...	200·1	103·4	303·5	65·9	66·16	66·17
1942-43 ...	306·3	101·2	410·5	74·6	74·54	74·54
1943-44 ...	...	...	...	...	85·26	85·64
1944-45 ...	...	...	...	...	95·01	99·75
1945-46 ...	...	...	...	...	99·34	(117·12)
1946-47 ...	...	...	...	...	99·98	...
1947-48 ...	...	...	...	...	99·9999	...

(Burma figures have been excluded.)

Source: Reserve Bank Report on Currency and Finance, 1942-43, p. 93).

The calculated values may for the present be ignored.

Before the outbreak of war the proportion of demand liabilities to total deposits was falling gradually. But in 1939-40 it rose by 2 per cent. and more rapidly in the following years. A proportion of 74·6% for demand liabilities to total deposits must be considered abnormal. What is the cause of the rise of this proportion from a little more than half to about three-fourths within four years ?

Deposits have increased on account of increased disbursements by the Central Government ('created money'), and those who benefit by this expenditure want their money to be readily available. Increased 'liquidity preference' due to war explains this interesting phenomenon.

Let us make a horrible supposition—that the fearful carnage to establish a 'new world order' or for 'freedom and democracy' (should the reader prefer that) will continue for another four or five years. If Government war expenditure continues to mount and there is more and more of created money, bank deposits will swell. What is likely to be the relation of demand liabilities to total liabilities in the coming years ?

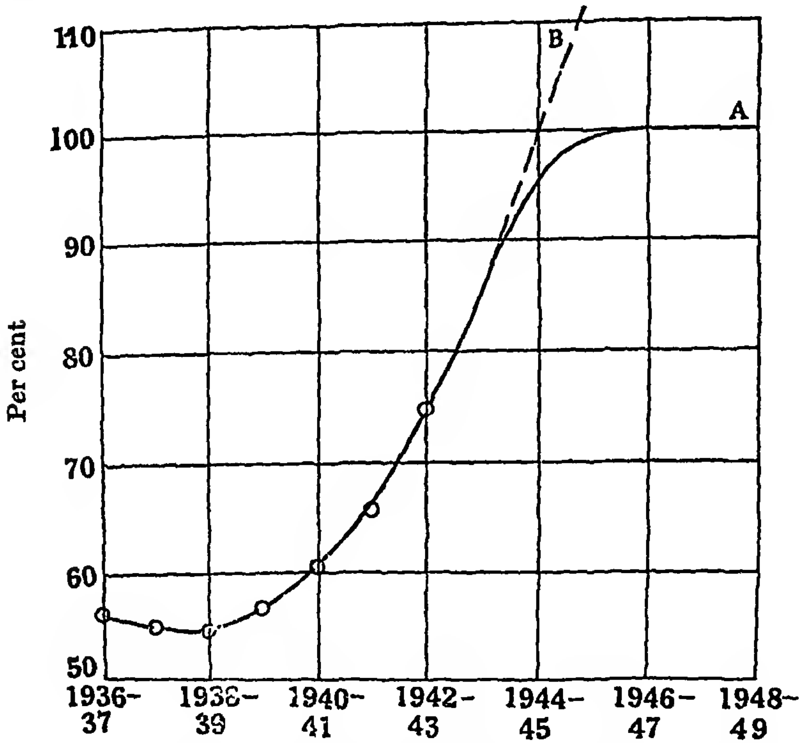


Fig. 7.

Showing the difference between two types of curves. The circles represent the percentage of demand liabilities to the total of demand and time liabilities of scheduled banks.

Curve B has been fitted by the method of least squares. It cannot flatten out at top.

Curve A will be ever approaching closer and closer to 100·0, but never exactly reach it.

See Appendix B.

Fig. 7, shows two curves marked A and B. The theoretical values from which the curves have been drawn are shown in the last two columns of the table given on p. 41, and the curves are explained in the appendix to this chapter. Both

curves give practically the same values for the period 1936-37 to 1942-43, but after that curve B rises steeply. Its enthusisam has not been curbed by a maximum limit, and it gives 117 as the proportion of demand deposits to total deposits for 1944-45, which has no meaning. Curve A has more sense. The proportion will continue to rise indefinitely, ever more and more closely approaching but never touching 100. A check to Government expenditure and increase of confidence in the ultimate issue of the war will slow down the rate of increase.

5. Accumulation of Sterling.

The following statement shows the total amount of the note issue and the amount of gold coin and bullion, and sterling securities in the Reserve against the note issue.

Average of Friday (figures)	Note issue. (Lakhs)	Gold coin and bullion. (Lakhs)	Sterling securities. (Lakhs)
1935-36	191,65	44,42	62,13
1936-37	201,68	44,42	69,63
1937-38	211,78	44,42	79,90
1938-39	210,58	44,42	66,88
1939-40	227,75	44,42	78,32
1940-41	258,67	44,42	129,92
1941-42	319,89	44,42	165,00
1942-43	525,24	44,42	319,11
1943-44	787,67	44,42	643,52

Since the foundation of the Reserve Bank the note-issue has increased 4 times and the amount of sterling securities ten times. Gold coin and bullion in the Reserve have remained unchanged.

The Bank's holding of sterling securities began to increase after the out-break of the war. The increase both in the note-issue and sterling securities was rapid between 1941-42 and 1943-44. The note-issue was expanded against sterling securities to finance war purchases in India by the British and Allied Governments. The meaning is that Britain and her Allies did not pay for what they bought in gold, but in sterling securities. A third alternative was the raising of loans in India on behalf of the foreign countries concerned. The easiest method of obtaining the finance

required was the issue of notes against sterling securities and this method was adopted, irrespective of the consequences to India. Since prices were not effectively controlled, the reckless diversion of resources to war purposes through the creation of new purchasing power inflicted much hardship on the Indian consumer.

6. Gold sales.

Gold sales to finance war purchases began from August 17, 1943. It is estimated that about $3\frac{1}{2}$ million tolas of gold have been sold amounting in value to about £20 millions. There is at present no free import or export of gold, and the Indian price is higher than the world price. The difference represents the profit on gold sales. This profit is shared between the United Kingdom and the United States. Commenting on "The Gold Sales Scandal", the *Eastern Economist* wrote in its issue of February 18, 1944 :—

"........in common decency the Government of India must have either insisted on buying the gold at world prices or sharing in the profits, or have refused to accept the bargain. Instead, the Government of India is allowing the people of this country to be exploited and is denying itself sizeable profits. It augurs ill for the future of international economic policies that the U.S.A., which is expected to play a constructive part in them, should start becoming a co-partner in exploitation so early in the game."

The comment is severe but not unjustified. The higher the price at which gold is sold against commodities, the cheaper is the bargain from the point of view of the United Kingdom and the United States.

Incidentally we may note that the effect of gold sales in diverting resources to war purposes is just the same as that of sterling securities. In both cases the supplies available for the civil population are reduced and, in the absence of rationing and other measures of control, prices must rise.

7. Repatriation of Sterling Debt.

United Kingdom is the 'home' of sterling.' Repatriation of sterling debt means the repayment of India's sterling debt.

In times of trouble foreign capital gets 'home sick' (*Heimweh des Kapitals*). Our large acquisitions of sterling have enabled sterling debt to be 'repatriated', or return home.

We are told that the desirability of repatriating sterling debt has been constantly before the Government and the

Reserve Bank; a beginning in this direction was made in 1937, but real progress became possible only when the Reserve Bank began to acquire large amounts of sterling. The total amount of sterling acquired during the 5 months preceding the war was about £ 8 millions as compared with £ 1·4 millions for the same period in 1939. During the subsequent seven months of the war the purchases of sterling by the Reserve Bank rose to about £ 65 millions, as against £ 24 millions in the corresponding period of the preceding year.

Sterling having become available, the Government re-opened the former scheme, authorising the Reserve Bank to purchase non-terminable Indian sterling securities in the open market as and when they became available, and transfer them to the Government for cancellation. In their place Rupee counterparts, or rupee loans, were created. The first such cancellation was effected on the 15th November, 1939. The scheme for the repatriation of terminable sterling loans was announced by the Government in February, 1940 (known as 'the licence scheme'). It consisted in the creation of Rupee Loans as counterparts of the Indian sterling loans: *e.g.*, 5% Rupee Loan, 1942-47 as counterpart of 5% sterling loan, 1942-47. A more comprehensive scheme was devised in February, 1941, to acquire the bulk of India's terminable sterling debt of the face value of £ 84 millions. The British Government required all residents in the United Kingdom to surrender their holdings of India's sterling loans at fixed prices, and the Government of India similarly required residents in British India to surrender their holdings of these sterling loans, payment being offered at their option in rupee counterparts or cash, *i.e.*, the rupee equivalent at 1*s.* 6*d.* of the prices. The rupee finance required for the operation was found by Government from its balances, supplemented by a ways and means advance (*i.e.*, temporary accommodation) from the Reserve Bank and the sale of rupee counterparts to the Bank.

Out of a total sterling debt of £ 356·05 millions, or £ 276 millions exclusive of railway stocks, debentures and annuities outstanding at the end of 1936-37, £ 200·85 millions had been repaid by the end of 1941-42. The repatriation of another £ 119 millions of sterling debt was effected in 1942-43. The methods employed were open market purchases, 'the licence scheme' of February, 1940, compulsory schemes, and

funding of Railway annuities. The last means that in return for a lump payment by the Government of India, the British Government have undertaken to provide the Government of India the annual sums required for payment to the annuitants until the termination of the annuities.

At the end of March, 1943, the amount of sterling debt repatriated was £ 307·26 millions at its face value. The purchase value was £ 305·29 millions, equal to 408·08 crore Rs. The amount of rupee counterparts created was Rs. 234·97 crores.

8. India's Public Debt.

The following statement shows the public debt of India:

End of March	Crore Rs.
1914	179·77
1919	358·78
1939	709·96
1943	1,208·45

Classification of Public Debt, 1943.

		Per cent of total
Undated	...	20·3
Over 10 years	...	19·7
Between 5 and 10 years	...	7·6
Under 5 years	...	14·3
Treasury Bills	...	21·9
P. O. Savings Bank deposits and cash certificates	...	7·7
Other obligations*	...	8·5
		100·0

* Include Three Year Interest Free bonds, the Postal Insurance and Life Annuity Fund, etc.

The sterling debt had been reduced from 512·15 crore rupees in 1934 to 57·41 crores at the end of March, 1943.

9. Use of Sterling Balances.

On the 31st March, 1944, sterling securities with the Bank amounted to about 780 crores. The war goes on and the Bank's sterling securities may be expected to increase further. Here are our sterling balances accumulated during the war by the sale of goods to the Allied Governments. What shall we do with them ?

The Bombay Plan, which will be discussed later, proposes to utilise sterling balances amounting to Rs. 1,000 crores for industrialisation. This does not mean the purchase of articles of luxury and comfort but capital equipment in the United

Kingdom. It would be the best possible use of our sterling resources, but it remains to be seen whether the United Kingdom would permit us to use sterling for this purpose. Difficulties may be created, for the industrialisation of India must reduce the demand for British manufactures.

Prof. Vakil of Bombay has argued that "so long as the sterling link continues, some indefinite portion of the sterling reserve will have to be maintained."* It would be the height of folly for India to maintain the sterling link at a level which requires a sterling reserve of 1,000 crores. Prof. Vakil has probably Indian experience of 1920 in mind when Reverse bills of an unprecedented amount were sold to maintain exchange, first at 2*s.* gold and then 2*s.* sterling. Planning, with a 'closed economy', minimizes the need for gold and foreign exchange. Industrialisation of India presupposes such planning,

A National Government, then, would use practically the whole amount of the available sterling (including sterling held in the Banking Department of the Reserve Bank) for the purchase of capital goods abroad. What the Government of India propose to do nobody knows. They are quite capable of using sterling reserves to raise and maintain the exchange value of the rupee at a higher level than the present.

The British View. Our sterling securities form part of blocked sterling balances, estimated to amount to £2,000 million. What is the British view in regard to honouring these obligations?

The legalistic view is that there is no distinction between these liabilities and ordinary international commercial liabilities, which means that Britain must automatically place either gold or gold convertible exchange at the holder's disposal.

Is Britain pleased at the prospect of having this heavy mill-stone of debt hanging round her neck? Definitely no.

According to the London *Financial News* (cable dated June 16, 1944) "there is an overwhelmingly strong case against a legalistic treatment of the Empire countries' sterling balances. That would be a negation of the principle of pooling Imperial resources in the interests of common victory."

Canada has waived her claims against Britain arising from war material deliveries. Canada paid for these deliveries by

* ***Tribune*, dated April 25, 1940.**

means of loans and taxation. India, the *Financial News* explains, 'with her primitive conditions, has been able to produce only a limited amount through taxation and borrowing'. Britain was thus compelled to pay in sterling for Indian deliveries.

"Indian sellers received rupee payments; the sterling equivalent of these rupees is owed to the Indian Government, and not to firms and individuals. The debt has been incurred as much for India's benefit and, incidentally, has expedited India's industrialisation."

The *Financial News* does not actually suggest repudiation of Britain's sterling debt to India, but it seems intolerable to the paper that 'Britain should emerge from the war with a crippling debt while other Empire countries have improved their overseas financial relations'.

The present arrangement is very convenient from the present British point of view—supplies are paid for by the issue of notes which cost nothing to print. The formality of issuing notes against sterling securities may as well be dispensed with.

APPENDIX B

Fig. 7 (p. 42) is interesting as showing the difference in the results obtained from different type of curves.

We may consider curve B first; it is easily disposed of.

Curve B. Proportion of demand liabilities to total liabilities.

(Curve fitted by the method of least squares)

Year	y_0 Crores	x	xy	x^2y	x^3y	y_c	d
1936-37	55·9	−3	−167·7	503·1	−1509·3	55·96	+·06
1937-38	54·9	−2	−109·8	219·6	− 439·2	54·67	−·23
1938-39	54·5	−1	− 54·5	54·5	− 54·5	54·78	+·28
1939-40	56·5	0	0	0	0	56·55	+·05
1940-41	60·6	1	60·6	60·6	60·6	60·26	−·34
1941-42	65 9	2	131·8	263·6	527·2	66·17	+·27
1942-43	74·6	3	223·8	671·4	2014·2	74·54	−·06
	422·9 $\Sigma(y)$		+416·2	1772·8 $\Sigma(x^2y)$	+2602·0		+·66
			−332·0		2003·0		−·63
			84·2 $\Sigma(xy)$		599·0 $\Sigma(x^3y)$		

$$(1)\quad 422{\cdot}9 = 7a + 28c$$
$$(2)\quad 84{\cdot}2 = 28b + 196d$$
$$(3)\quad 1772{\cdot}8 = 28a + 196c$$
$$(4)\quad 599{\cdot}0 = 196b + 1588d$$

$$y = 56{\cdot}55 + 2{\cdot}6904x + {\cdot}9667x^2 + {\cdot}0444x^3$$

The reader already knows the normal equations used in fitting a parabola of the third order. Equations (1) and (3) are solved as simultaneous equations for the values of a and c, and (2) and (4) for the values of b and d. Having solved the equations, the rest is easy.

The curve is a very good approximation to the observed values, but it cannot flatten out at top. As x increases it will rise ever more and more steeply on account of the third power of x in the equation. But a proportion above 100 has no meaning. The method of least squares, unaided by other devices, is therefore unsuitable in the present case for extrapolation—or for extending the curve beyond the period under observation.

Curve A

The reader is reminded of the fundamental equations used in fitting the population curve (Appendix A of Vol. I.)

$$\log\frac{x}{a-x} = K(t-t_1); \qquad x = \frac{a \cdot 10^{K(t-t_1)}}{1+10^{K(t-t_1)}}$$

Curve A. Proportion of Demand Liabilities to total deposits

$a = 100{\cdot}0$. Class-interval 1.

1	2	3	4	5	6	7	8
Year	y_0 Crores	$\log\frac{x}{a-x}$	$t-t_1$	K_1	K_c	y_c	d
1936-37	55·9	·1029782	2	·051487	·051667	55·92	+·02
1937-38	54·9	·0853958	3	·028465	·027749	54·78	−·12
1938-39	54·5	·0783851	4	·019596	·020484	54·70	+·20
1939-40	56·5	·1135591	5	·022712	·022736	56·51	+·01
1940-41	60·6	·1869764	6	·031163	·030242	60·30	−·30
1941-42	65·9	·2861310	7	·040876	·041607	66·16	+·26
1942-43	74·6	·4679051	8	·058488	·058207	74·54	−·06
							+·49
							−·48

$$(1)\quad {\cdot}252787 = 7a + 28c + 196e$$
$$(2)\quad {\cdot}057392 = 28b + 196d$$
$$(3)\quad 1{\cdot}317595 = 28a + 196c + 1588e$$

(4) $\cdot 299882 \quad = \cdot 196b + 15588d.$

(5) $10\cdot 068190 = 196a - 1588c + 13636e$

$y = \cdot 022736 + \cdot 005351x + \cdot 002507x^2 - \cdot 0004716x^3 + 0001196x^4$

($x=0$ for 1939-40).

We take 100·0 as the maximum, our a, so that the proportion will always be less than 100, however much demand liabilities may increase. $a=50$ per cent. When was the proportion of demand to total liabilities 50 per cent. ? Never. We, however, select the year 1934-35 as our origin, when, it is assumed, the proportion was exactly 50 per cent. This means that if the curve were extended backwards, for earlier years, the proportion would be lower still. That need not worry us. We want a curve which would give a good approximation to the observed data, and which can be extended forwards.

K_0 is found by dividing $\log \frac{x}{a-x}$ by the corresponding values of $t-t_1$. To the observed set of K's, we have fitted a parabola of the 4th order by the method of least squares, using the following normal equations.

$$\Sigma(y) = Na + c\Sigma(x^2) + e\Sigma(x^4)$$
$$\Sigma(xy) = b\Sigma(x^2) + d\,\Sigma(x^4)$$
$$\Sigma(x^2y) = a\Sigma(x^2) + c\Sigma(x^4) + e\Sigma(x^6)$$
$$\Sigma(x^3y) = b\Sigma(x^4) + d\Sigma(x^6)$$
$$\Sigma(x^4y) = a\Sigma(x^4) + c\Sigma(x^6) + e\Sigma(x^8)$$

The origin is taken in the middle of the series, N being odd ($=7$).

With the help of the equation :

$y = \cdot 022736 + \cdot 005351x + \cdot 002507x^2 - \cdot 0004716x^3 + \cdot 0001196x^4$

K may be found for any value of x. For example, what is K when $x=8$?

$$y = \cdot 022736 + (\cdot 005351 \times 8) + (\cdot 002507 \times 64) - (\cdot 0004716 \times 512) + (0001186 \times 4096)$$
$$= \cdot 022736 + \cdot 042808 + \cdot 160448 - \cdot 241459 + \cdot 489882$$
$$= \cdot 715874 - \cdot 241459 = \cdot 474415, \text{ and so on.}$$

Year	x	$t-t_1$	K_c	y_c
1943-44	4	9	·084688	85·26
1944-45	5	10	·127966	95·01
1945-46	6	11	·198230	99·34
1946-47	7	12	·309437	99·98
1947-48	8	13	·474415	99·9999

How K's, are turned into values of y has been explained in Appendix A, Vol. I.

CHAPTER III

FOREIGN TRADE

In regard to our balances of trade during the war, history is repeating itself. The same forces are in operation, as during the Great War of 1914-18 to restrict imports, *i.e.* scarcity of shipping and the pre-occupation of the United Kingdom, our largest single source of supply for manufactured goods, with the war. The exports of commodities, needed for war purposes by Allied countries, have increased absolutely, as compared with the pre-war years, during this war; the exports increased only relatively to imports during the Great War—that is, the value of both exports and imports, as compared with the pre-war year 1913-14 fell during the course of the Great War, but the fall in imports was relatively greater. As during the Great War, the balance of trade during the present war has heavily turned in India's favour.

1. Balance of trade.

The following statement shows our balance of trade :—

Table III. 1.

In Crore Rs.

	1938-39	1940-41	1941-42	1942-43
Exports (including re-exports) ...	169	199	258	194
Imports ...	152	157	173	110
Total ...	321	356	426	304
Balance of Trade ...	+17	+42	+80	+84

There was a considerable drop in exports and imports in 1942-43. This is partly explained by the cessation of trade with Burma. Still the amount of the favourable balance of trade was 4 crores greater than in 1941-42, and no less than 67 crores greater than in 1938-39.

The following figures show India's favourable balance of trade during the Great War.

Table III. 2.

Balance of trade.

	Crore Rs.
1914-15	+37
1915-16	+61
1916-17	+87
1917-18	+81
1918-19	+67

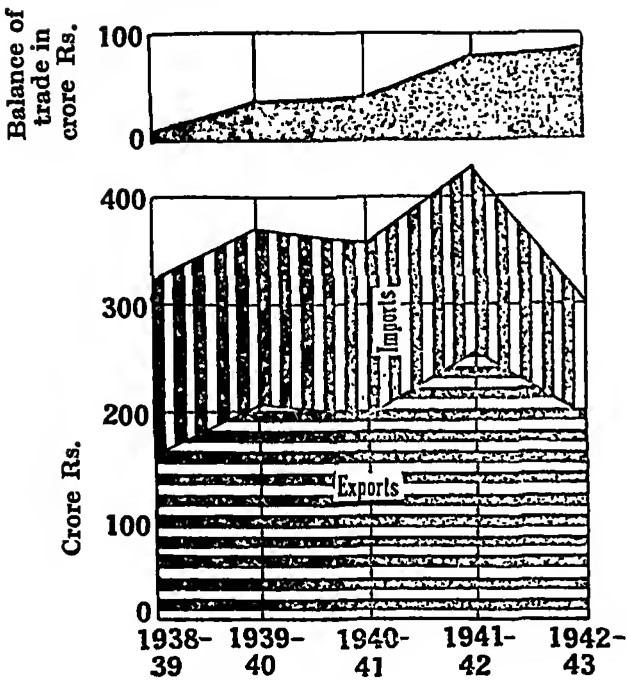


Fig. 8.

Showing the value of exports and imports of merchandise and the balance of trade during the war. While both exports and imports fell in 1942-43, the balance of trade improved.

For data, see Table III. 1.

2. The Quantum of Trade.

The value of exports or imports may rise on account of the rise of prices when the quantity of imports and exports is shrinking. It is therefore necessary to determine the quantum of exports and imports. This is done by re-calculating the value of exports and imports, taking prices in a given year as the base. Thus, changes in value on account of

changes in prices are eliminated. Indices for the quantum and price level of imports and exports are shown below :—

Table III. 3.

(Base 1938-39=100)

Imports	...	1940-41	1941-42	1942-43
Quantum	...	81·3	74·2	37·6
Price level	...	126·7	153·4	192·2
Exports.				
Quantum	...	88·1	93·4	62·5
Price Level	...	130·3	155·0	184·6

It is seen that the prices of imported goods rose to a greater extent (as during the Great War) than those of exported goods. Allowing for the rise of prices, the quantum of imports fell from 100 in 1938-39 to about 38 in 1942-43, and that of exports to about 63. Imports, it is evident, have suffered much more than exports. The war itself has created a demand for certain classes of exports, for which shipping space has to be found.

3. The Gregory-Meek Mission.

While the growth of exports and of the favourable balance of trade between 1938-39 and 1942-43 may now be regarded with satisfaction, considerable anxiety was caused by the "descent of the dark night of Nazism' upon a large part of Europe in 1940, for it meant the loss of one-fifth of India's over-seas trade. The Government of India sent Dr. Gregory, Economic Adviser to the Government of India, and Sir David Meek, Indian Trade Commissioner in London, on a mission to the United States in 1940 to explore the possibilities of new markets in the United States to replace the lost markets in Europe

The report of the mission was largely negative in character. It emphasized the directions in which India's trade with the United States was incapable, rather than capable of expansion.

India's lost trade in groundnuts amounted to 8 crores. The United States itself is a large producer of groundnuts.

Argentine linseed, which had also lost its European markets, was a strong rival of Indian linseed in the United States.

Very little increase in the United States' demand for Indian oil-cakes was to expected.

The United States, the largest world producer of cotton, could not be expected to buy surplus Indian cotton. In regard to raw wool, while American carpet mills were short of Indian supplies, there was a large domestic production in the United States as a bye-product of the meat-packing industry.

On account of Canadian and Argentine competition, Indian wheat had no place in the United States.

India has a monopoly of raw jute production. But increased use was being made of substitutes in the United States. "The first is cotton, and feelings regarding cotton in U. S. A. are strong." In regard to the second substitute, paper, the report of the Mission states :

"We have also seen representatives of bag manufacturing concerns which use cotton and paper as well as jute, and they have given various reasons for the growing use of the substitutes. Price is generally the main factor but not always the only one. For example, in the case of jute bags for onions the use of jute bags is rapidly disappearing in favour of open-mesh paper bags, because the latter can be made in bright colours which show up the onions to advantage."

The report of the Gregory Meek Mission was unduly pessimistic ; actually exports of Indian merchandise to the United States approximately doubled in 1941-42 as compared with 1939-40.

Table III. 4.

Exports of Indian Produce to the United States :*

(In lakh rupees)

	1939-40	1941-42
Coir manufactures	6	19
Cotton, raw	118	203
Fruits and vegetables	98	179
Gums and raisins	23	41
Raw hides and skins	205	298
Jute cloth	1041	1956
Lac	122	375
Spices	82	235
Grand total (including other articles)	24,42	46,59

The Mission noted that there was a growing interest in the United States in Indian consumers' goods, such as cotton

**Review of the Trade of India*, 1941-42, p. 208.

prints, druggets etc. "'Made in India' is itself a selling point and the anti-Japanese prejudice on the part of certain consuming sections should assist the sale of Indian products." It is necessary to pay regard to the special character of the American market. "Variety, novelty, strict adherence to the specifications laid down, and promptness of delivery, are essential." (p. 39 of the Report)

Trade would be more rapidly promoted if Indian business-men visited the United States and established personal contacts with actual or potential buyers.

4. Composition of trade.

Of very great significance is the change in the composition of trade. This is shown by the following statement :—

Table III. 4.

Percentages.

Imports	1938-39	1940-41	1941-42	1942-43
Foodstuffs	15·7	15·2	16·1	5·3
Raw Materials	21·7	20·6	28·8	47·3
Manufactured goods	60·8	57·0	54·1	44·5
Exports (*including re-exports*)				
Foodstuffs	23·3	21·3	23·6	25·1
Raw materials	45·1	34·4	28·9	23·1
Manufactured goods	30·0	43·1	45·5	50·3

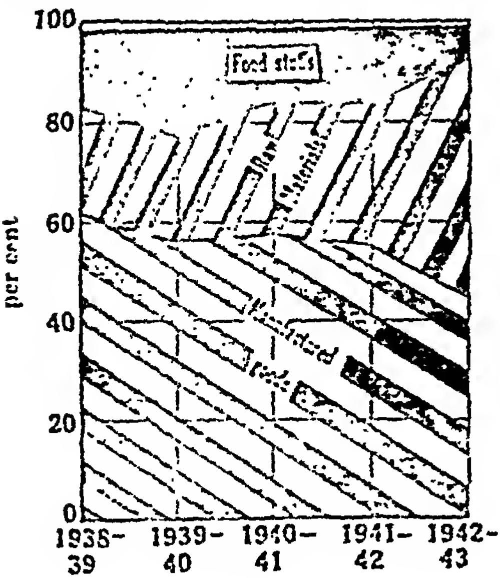


Fig. 9.

Showing the percentage share of the three main groups in *Imports* into India from 1938-39 to 1942-43.

Note the rise in the share of raw materials and the fall in that of manufactured goods.

For data, see Table III. 4.

The change in the composition of trade is remarkable. No such change occurred during the Great War (1914-18).

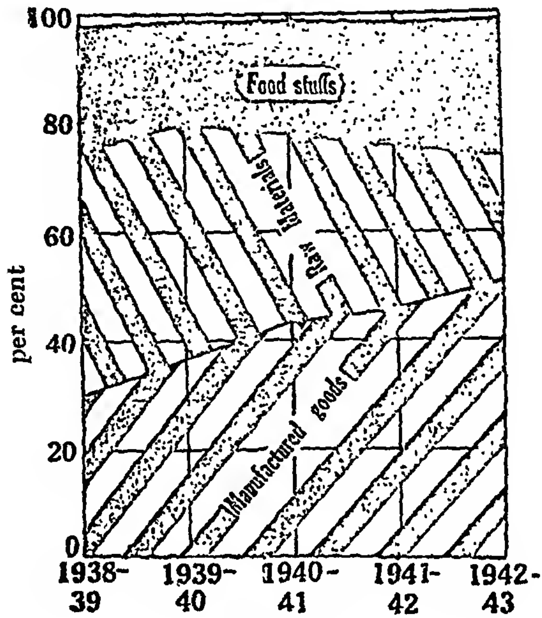


Fig. 10.

Showing the percentage share of the three main groups in *Exports* from India from 1938-39 to 1942-43.

Note the fall in the share of raw materials and the rise in that of manufactured goods.

For data, see Table III. 4.

Take imports first. The proportion per cent of imports of manufactured goods to total imports fell heavily from 60·8 in 1938-39 to 44·5 in 1942-43, while that of raw materials has more than doubled. That India, an exporter of raw materials on a large scale before the war, should now be actually importing raw materials representing 47·3% of total imports, is almost incredible. If this change were of a permanent character, India would rank in the world as a leading manufacturing country.

In regard to exports, while the proportion of exports of raw materials fell from 45·1% in 1938-39 to 23·1% in 1942-43, that of manufactured goods rose from 30% to 50·3%. Again the change is almost incredible. No doubt is left about the

transformation of India from an agricultural to a manufacturing country—at any rate for the duration of the war !

5. Principal articles imported and exported.

Table III. 5.

Figures in Lakhs of Rs.

Imports

	1938-39	1940-41	1941-42	1942-43
Grain, pulse and flour	13,76	14,35	15,02	31
Sugar	46	36	1,08	2
Oils, vegetable, mineral and animal	15,62	21,03	21,85	27,78
Cotton, raw and waste	8,51	9,43	15,34	15,42
Wool, raw	62	2,79	2,77	2,95
Chemicals, drugs and medicines	5,62	8,07	8,76	6,39
Dyes and colours	4,06	6,37	6,96	5,42
Machinery	19,72	11,83	13,73	10,53
Cotton (yarns and manufactures)	14,15	11,35	6,79	1,37

Exports (*including re-exports*)

	1938-39 Lakhs	1940-41 Lakhs	1941-42 Lakhs	1942-43 Lakhs
Grain, pulse and flour ...	7,80	6,02	10,70	7,12
Tea ...	23,20	27,79	30,60	31,68
Oils, vegetable, mineral and animal ...	1,06	2,46	2,68	1,44
Seeds ...	15,10	10,06	10,57	10,57
Cotton, raw and waste ...	24,82	24,60	17,00	5,58
Jute ...	13,40	7,85	10,42	9,01
Hides and skins, tanned and dressed, and leather. ...	5,28	5,09	6,03	4,82
Metals ...	2,07	5,27	4,28	1,90
Cotton (yarn and manufactures) ...	7,57	17,52	38,00	46,86
Jute manufactures ...	26,26	45,38	53,00	36,38

Under imports the most noticeable increases are in the case of oils and cotton ; there is decrease in the case of cotton manufactures. Under exports the most considerable and steady increase is in the case of cotton manufactures. Exports of raw cotton and cotton waste fell in 1942-43 to a negligible amount.

Referring to the change in the composition of foreign trade the official *Review of the Trade of India* (1941-42) says ;

"It is characteristic of a period when a country's industrial advance is proceeding at an accelerated pace, that there should be on the one hand an increase in the exports of manufactured articles accompanied by a decrease in their imports, and on the other hand an increase in the imports of raw materials coupled with decrease in their exports. An increase in industrial production places a country simultaneously in a position to reduce its intake of foreign industrial products, to utilise a larger quantity of its own raw materials at home, and to consume additional supplies of raw materials from abroad."*

This trend is prominently in evidence to-day. Whether it will be in evidence at all after the war is more than doubtful. If history repeats itself, we may expect a flood of manufactured imports as soon as the war ends; and Lancashire would not take long to regain the markets in cotton piece-goods in foreign countries which, in the absence of British (and Japanese) competition, we are supplying to-day.

6. Direction of Trade.

The following statement shows the changes in the direction of trade:

Percentage share of British Empire and Foreign countries in India's foreign trade :—

Table III. 6.

	1939-40		1940-41		1941-42		1942-43	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
British Empire	58·1	52·4	57·3	62·4	61·0	62·7	55·5	67·1
U.K. ...	30·5	34·1	22·8	34·7	21·1	32·3	26·7	30·6
Foreign countries ...	41·9	47·6	42·7	37·6	39·0	37·3	44·5	33·9
U.S.A. ...	6·4	8·5	17·2	13·8	20·0	19·5	17·2	14·8

* p. 96.

The percentage share of the British Empire in our imports, after rising to 61 in 1941-42 fell to 55·5 in 1942-43, but that in exports has steadily and substantially improved.

Among foreign countries the greatest expansion has taken place in the trade with the United States; her percentage share in our exports more than doubled, and that in imports more than trebled in 1941-42 as compared with the pre-war year. There was a fall in both cases in 1942-43.

Apart from the United Kingdom and the United States, exports have increased to Australia, Iran, Arabia, Iraq, Asiatic Turkey, Canada and the Union of South Africa.

CHAPTER IV

EFFECTS OF THE WAR ON INDIAN MANUFACTURING INDUSTRIES

The strength of the Indian army has increased enormously and to equip this army with modern weapons was a gigantic task. Arrangements were made with the United Kingdom and the United States to ensure steady supplies of equipment unobtainable in India such as guns, machine tools, optical instruments, wireless and other signalling instruments etc., and schemes were prepared to produce equipment in India.

1. Technical Training.

An essential part of such schemes was the technical training of Indian workers. The technical training scheme orginally fixed the number of persons to be trained at 15,000; later this was increased to 44,600. The scheme covers not only special technical institutions which have been newly created but also a large number of existing factories and workshops. The total number of training centres in India at the end of March, 1943 was 386 (Madras 90 : Bengal 54 ; Bombay 44 ; Indian States 56). The actual number of trainees at all these centres was about 42,000 out of a possible capacity of about 47,000.

In November, 1940, Mr. Earnest Bevin announced a scheme for training Indian workers in factories and workshops in England. The chief object of the scheme was to accelerate munitions production in India. Incidentally the trainees learn to appreciate British methods of industrial co-operation between employers and workers, and acquire a knowledge of sound trade union principles. The Bevin scheme is in operation. Candidates are chosen from the working classes preferably from among men of the engineering trades. The selection is made by the National Service Labour Tribunals in consultation with Regional Inspectors of technical training and large industrial employers, including Railway administrations. The courses of training cover mainly engineering occupations, *e.g.*, fitting and machine operating, and ordinarily last for 9 months for air-craft trainees and eight months for others. Over 300 candidates had secured their training

under the Bevin scheme by the end of May, 1943. On return to India, the trainees are employed as supervisors in ordinance factories and as instructors at various technical training centres.

2. Industrial Production.

Referring to the enormous increase in defence expenditure and the deliberations of the Eastern Group Conference, which led to the institution of the Eastern Group Supply Council, the Finance Member, in the course of his budget speech for 1941-42, said: "These tremendous developments in the supply field must necessarily give great stimulus to Indian industries. One of the most important results has been the investigation of the possibilities of establishing new industries in India for the production of stores that have hitherto been imported." He gave a few examples: web equipment, lubricating oil, bichromates and acetic acid, which were formerly imported, are now produced in India. In other cases suitable substitutes have been found, *e.g.*, cotton canvas for flax canvas, fish oil for codliver oil, and various Indian varieties of drugs for those previously imported.

The war has affected the whole filed of industrial production. The benefit to hand-workers from orders for hand-made goods placed by the Government of India with the Provinces has been already mentioned.

A Press note issued by the Supply Deparment says:

"If the war months of 1939-40 were the months of exploration, 1940-41 was a year of planning and 1941-42 and beyond the gradual fulfilment of an expanding industrial war-effort."

In the first year of the war India executed war orders to the total value of Rs. 83 crores. The figure later rose to Rs. 20 crores per month, or say, a crore per day.

Enormous quantities of textiles, including tents and army blankets, have been purchased by Government. The Defence services absorb 1,000 million yards of cotton textiles a year, 10 million yards of cotton-jute union fabric and 5 million pith helmets. The wool industry is entirely on a war-footing.

The production of army boots exceeds 4 million pairs annually. Timber production is expected to attain a level of 500,000 tons per year. Over 30,000 men are now employed in the ship-building and repairing yards in India.

The production of munitions has gone up manifold. The production of rifles has increased 6 times, of bayonets 10 times, of gun ammuntion 4 times, and gun-carriages 9 times.

High explosives such as T. N. T. have been manufactured in India for the first time. Large plants have been installed for the manufacture of toulene, acetone, kieselgurh, mineral jelly and various acids. Manufacture of alloy steel has been undertaken. The production of aluminium has started. To carry out the various ammunition projects many civil engineering works have sprung up. The number of trade workshops has risen from 500 at the outset of the war to over 1500. A number of Railway workshops are also engaged in producing munition components.

The increase in the supply of munitions has been made possible by the flow of necessary equipment into India from the United Kingdom and the United States. The American Technical Mission (Grady Mission) sponsored several new plants and machine tools. The supervision staff was imported from the United States.

3. Industrial Profits.

The chain-index of profits (all industries), with 1928=100, rose from 72·4 in 1939 to 99·6 in 1940 and 137·8 in 1941. Unfortunately later figures are not available at the time of writing. The chain-index is published in the *Review of the Trade of India*, and the latest volume of this *Review* that has been published is for the year 1941-42!

In the absence of the authoritative chain-index we may consider the trend of industrial profits based on a sample of 445 joint-stock undertakings. For the tables given below we are indebted to an article in the *Eastern Economist* by Mr. M. H. Gopal (May 12, 1944).

Average net profits per concern

(1000 Rs).

		1939	1940	1941	1942	1943
Jute	...	1,08	6,43	6,67	9,68	10,02
Cotton	...	6,08	4,43	12,49	19,04	39,21
Tea	...	73	86	1,56	1,84	2,86
Sugars	...	4,30	6,16	5,23	6,88	9,39
Coal	...	1,85	1,67	1,98	1,77	2,30
Engineering	...	42,81	57,28	76,81	15,47	96,37
Bank	...	—	12,39	24,20	23,39	—
Miscellaneous	...	4,72	4,93	15,42	18,60	18,91
All Kinds	...	4,22	5,36	11,92	10,92	13.80

Index Numbers of Average Net Profits.

(Base 1939=100)

	1939	1940	1941	1942	1943
Jute ...	100	590	617	896	926
Cotton ...	100	73	205	818	645
Tea ...	100	118	214	252	392
Sugars ...	100	143	122	160	218
Coal ...	100	88	107	95	124
Engineering ...	100	115	180	36	225
Miscellaneous ...	100	104	326	394	401
All Kinds ...	100	127	282	259	327

The absolute amount of profits varies very greatly from industry to industry ; it is obviously related to the capital invested and the size of the firm in different industries.

Profits increased slowly in 1940 and more rapidly in 1941. There was a set-back in 1942, due to disturbed political and labour conditions, followed by a remarkable recovery in 1943. Roughly industry was 3¼ times more profitable in 1943 as compared with *1939*.

Increased profitableness of industry is due to war-demand. This is clearly the case in regard to jute, cotton, tea and engineering. Sugar and coal have done less well. There were depressed conditions in the coal industry in 1940 and 1942. It may be remembered that the principal demand for coal comes from public utility concerns, *e.g.*, railways and electric supply companies, which are in a special position as consumers.

The setting up of a Coal Controlling Board was announced in March, 1944. The whole industry, production as well as distribution, has been brought under Government control. The Board will include Government nominees and representatives of producers and consumers.

Only a small part of increased profits has been utilised for dividend purposes. Mr. Gopal has calculated that, on an average, the proportion of profits utilised for dividends has fallen from about 63% to about 25%, while the reserve funds have increased by 50%. Larger reserves would be a source of strength to our industries in post-war years.

4. Control of Capital Issues.

A reference, again, to the ordinance issued in May, 1943 to control capital issues will not be out of place in the present connection. It has an anti-inflationary aspect, but its chief

object is to prevent the growth of mushroom companies, and thus to direct the industrialisation of India on 'sound' lines. There is, at the present time, a shortage in the country of many of the most essential goods and services, including not only iron and steel, machines and mill stores but also of skilled labour and of transport facilities. If all sorts of enterprises are allowed to spring up, a scramble for supplies will begin, and industries for producing non-essential or luxury goods may be established which will reduce the supplies of men and material available for the production of articles in more common use, or those required for war purposes. The control of capital issues will enable Government to exercise discrimination and prevent the expansion or setting up of unwanted industries.

A Press note issued in July, 1943, explained that consent will, however, be granted in suitable cases for an issue of capital required to purchase plant or machinery for which an order has been placed for delivery after the war, provided that the money is invested in defence loans or other new Government securities. It must be kept so invested until it can be spent for the intended purpose.

A Press note issued in April 1944 announced the relaxation of restrictions on the use of new capital with the object of aiding post-war reconstruction.

Under the old Order the raising of capital for long-range schemes was allowed only if their promoters had carried their plans to the extent of a definite scheme, and negotiations for supplies of machinery up to a certain degree of definiteness.

This condition has been relaxed provided the new capital raised for long-range schemes is invested in defence loans until it can be made use of in the post-war period.

No part of such capital raised and invested in Government securities will be released until the Government are satisfied that the time has come to make the corresponding payments for the supplies of machinery etc. Further, the grant of Government consent to the proposed issues will be entirely without commitment as regards such restrictions as may have to be imposed later.

For example, if it is decided that a particular business should be a Government monopoly, it could not be claimed against the Government monopoly that corporations were in

existence which had been allowed to collect capital for starting the same business.

We may now briefly review conditions in the more important industries.

5. Cotton Mill Industry.

Mill production of cotton piece-goods increased from 4,013 million yards in 1939 40 to 4,494 million yards in 1941-42, but fell to 4,029 million yards in 1942-43. In spite of increase in production, per capita consumption of cloth has decreased : *

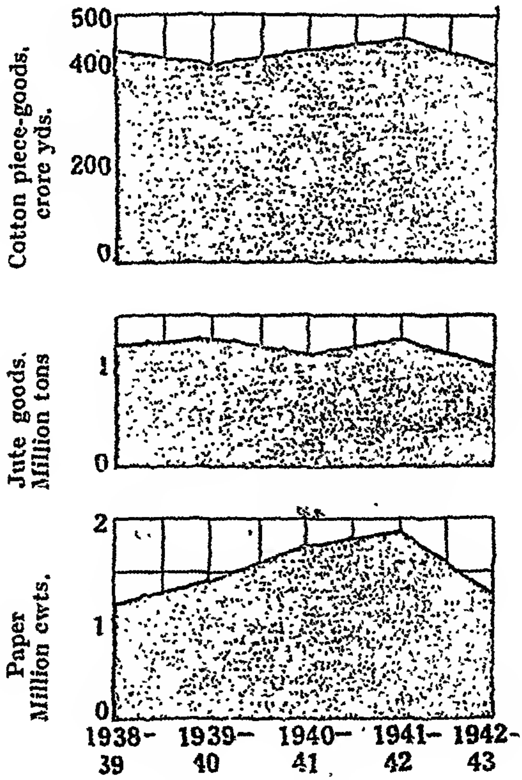


Fig. 11.

Showing production of cotton piece-goods, jute goods and paper, during the war. In all the three cases production declined in 1942-43.

* *Review of the Trade of India*, 1941-42, p. 110.

Cotton piece-goods

	Net imports		Net available mill production		Handloom production estimated		Net available for consumption	
	Actual, crore yards	Per capita, Yards.	Actual, crore yards.	Per capita, yards	Crore yards	Per capita, yards	Total, crore yards	Per capita yards
1937-38	58	1·57	384	10·38	140	4·02	591	15·97
1938-39	63	1·66	409	10·76	92	5·05	664	17·47
1939-40	56	1·47	379	9·97	182	4·79	617	16·23
1940-41	40	1·02	388	9·95	165	4·23	593	15·20
1941-42	10	0·26	372	9·54	207	5·30	589	15·10

In calculating *per capita* consumption, variations in population from year to year have been allowed for.

The figures are not exact, for a margin of error in the estimate of hand-loom production will have to be allowed for.

Per capita consumption of cloth in 1941-42 was 15·1 yards, or more than 2 yards less than in 1938-39. The fall is accounted for by the Defence Services and exports.

Per capita consumption of cloth in 1913-14 was thus estimated by the Indian Tariff Board :

		1913-14; million yards
1.	Imports of foreign piece-goods ...	3,197
2.	Re-exports, by sea, of foreign piece-goods ...	155
3.	Net imports (1-2) ...	3,042
4.	Mill Production ...	1,164
5.	Handloom production ...	1,068
6.	Total Indian production (4+5) ...	2,232
7.	Exports of Indian piece-goods ...	130
8.	Balance of Indian piece-goods available for consumption (6−7) ...	2,102
9.	Balance of Indian and foreign piece-goods available for consumption ...	5,146
10.	Population, millions ...	316
11.	Consumption, *per capita*, yards ...	16·28

Per capita consumption increased by 1·19 yards in 1938-39 as compared with 1913-14.

Hand-loom production is estimated on the basis of yarn available for the hand-loom industry. The total quantity of yarn is given by net imports *plus* Indian mill production (there are no statistics of the output of the *charkha*). Allowance is then made for exports of yarn and the quantity consumed in mills for the production of woven goods. The balance is used by the hand-loom industry.

Per capita consumption of hand-loom production in 1941-42 constitutes a record (5·3 yards).

In view of war conditions, a 60 hour week has been allowed in cotton weaving and spinning mills (54 hours under the Factories Act).

The cotton mill industry is functioning under Government control. The Cotton and Yarn (Control) Order was passed in June, 1944, and immediately thereafter the Cotton Textile Board was set up. The Board consists of 25 members representing various interests, and it is assisted by 8 sub-committees. There is also a Textile Commissioner.

To help the poorer consumers the mills are producing and selling standard cloth at a reasonably low price. The quantity has been fixed by Government at 2,000 million yards per year, which is equal to about 50% of the total mill output. Another 10% of the total mill output is required for the Defence Services. Government measures to control the price of the remaining 40 per cent of the output have succeeded in lowering the price of such cloth as is available outside the 'black market'.

6. The Jute Industry.

Conditions in the jute industry were prosperous in 1941-42, which is also shown by the value of jute exports in that year (about 54 crores, as compared with 26 crores in 1938-39). The jute industry was pleased with the American order for 70 crore yards of Hessian, placed early in 1940. To cope with the American demand hours of work were increased to 60 per week and idle looms were unsealed. The bombing of the Calcutta area in December, 1942, and January, 1943, caused a large defection of labour and the output of jute manufactures suffered temporarily in consequence.

For war purposes jute mills have been producing some new classes of goods, *e.g.*, tents and canvas.

Coal difficulties have troubled the industry. The 'Grow more food campaign' may reduce the supplies of raw jute.

7. Iron and Steel.

The iron and steel industry has been successfully switched over from peace time to war-time production. The change, we are told, entailed "an almost Herculean effort'. The output of steel goods has considerably increased and the manufacture of a large variety of special steels suitable for munitions production has been undertaken, *e.g.*, special bar for the manufacture of shells, a bullet-proof armour plate, gun turrets, high speed machine tools, and stainless steel for surgical instruments.

The distribution of iron and steel is under strict Government control. The Iron and Steel (Control of Distribution) Order came into force on 1st August, 1940. Its object is to ensure that the iron and steel produced in India is used only for Defence and war supply purposes and to meet really essential civilian requirements.

8. The Sugar Industry.

There was over-production of sugar in 1936-37, and again in 1939-40. Restrictions were imposed on production in that year in U.P. and Bihar.

After the crisis of 1939-40, for the first time there was unrestricted production in the season 1942-43 in the two major sugar producing provinces. The output is estimated at a little over 1 million tons.

Production by Provinces, 1942-43

		Tons
U. P.	...	613,000
Bihar	...	237,000
Bombay	...	77,200
Madras	...	33,900
Bengal	...	16,500
Punjab	...	6,600
N.W.F.P.	...	3,100
Sind	...	2,000
Indian States	...	81,600

U.P. and Bihar account for 80 per cent of the total output. They could have produced more if more cane could have been saved from *gur* manufacture. The production of factory sugar is not so much determined by the acreage under sugar, as by the price of *gur*. A higher price of *gur* means less cane delivered to factories.

The distribution of sugar is controlled by the Sugar Controller. He has divided the country into deficit and

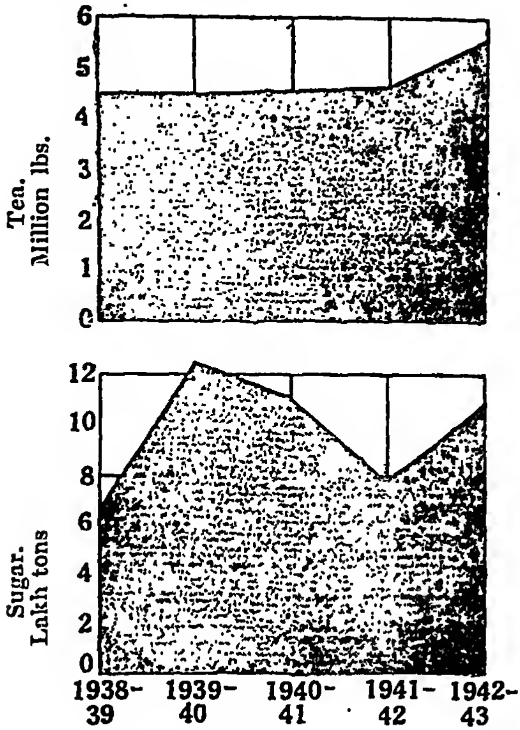


Fig. 12.

Showing the production of sugar and tea during the war. There was over-production of sugar in 1939-40, and a marked increase in the production of both sugar and tea in 1942-43 as compared with the preceding year.

surplus provinces and declares quotas for each based upon the consumption data collected by the Indian Sugar Syndicate in previous years. The control rates are fixed, and then the distribution is placed with listed, licensed and recognised dealers.

Sugar is rationed in the bigger towns. The 'black market' has not entirely disappeared. It was more prominent some time ago.

9. Cement.

The output and price of cement are controlled by an agreement between the Associated Cement Companies and

the Dalmia Group. The Agreement has limited, if not entirely eliminated internal competition.

The internal demand for cement increased chiefly for military and industrial requirements connected with the war. Export demand tended to increase, but it was limited by the scarcity of freight space. To meet a growing demand there was an extension of cement factories and alterations and improvements in plants.

The rise in the price of cement has been comparatively small, and it is accounted for by the rise in working costs (higher prices of coal, stones and packing, and increased railway sur-charge). The policy of the producers is to progressively reduce the price of cement with a view to encouraging its greater consumption.

Paper. The cessation of trade with continental Europe has caused a heavy fall in the imports of paper. The Indian paper industry, left without any important rival, increased its output to 1·8 million cwts. in 1941-42, but home production was insufficient to meet the increased demand not only of the Provincial and Central Governments in India but of the Fighting and Defence Services both in India and abroad. Imports from the United States have increased, but they are controlled in order to conserve the dollar resources of the country.

War conditions have added to the difficulties of pulp and paper mills. While Sabai grass and bamboo are available, there is an acute scarcity of machine clothing, replacement parts and chemicals. In spite of increased costs of production and difficulties of securing paper-making materials, mills are working to capacity.

10. The Indian Enamel Industry.

The only source of information for this industry is a brief note by Mr. M. M. Suri, in a special issue of *The Capital* of Calcutta*. The manufacture of enamel-ware started about 1922. Between 1922 and 1936 the industry suffered much on account of Japanese competition. It was saved from extinction by foreign users of enamel advertisement signs and later, several important Indian houses. "Then came the war", writes Mr. Suri "and with it heavy demands from the Supply Department and the Government Medical Stores, so that the industry to-day may be said to be flourishing."

* Industries Supplement, Jan. 1944, P. 57.

11. The Indian Mica Industry.

"Within the last three or four months India has made the surprising discovery that she has got a mica industry" writes a special contributor in the same issue of *The Capital*, "and perhaps even more significantly, that she is the world's chief source of supply of this most important commodity."

Mica is indispensable to electrical machinery. Mica is used as the insulating medium in spark plugs, transformers, radio tubes, armatures and commutators. It is used as a filter in television and has other uses in condensers, The demand for mica for war purposes is almost unlimited.

Dr. Dunn, realising the importance of mica in the modern world, thus writes in the *Records of the Geological Survey of India**.

"The province of Bihar, in particular, should regard itself as the world's trustee for this mineral and conserve valuable resources with the greatest care. The industry should be fostered ; encouragement should be for the investment of capital by reliable concerns, rather than by the individual who mines wastefully and with little financial backing."

Dr. Dunn has also drawn attention to mica thieving which is common in Bihar.

The Eastern Economist of Delhi deserves credit for making a study of the Bihar mica industry at first hand.† There is urgent need for checking wasteful methods of working the mines and, secondly, the widespread piracy and illicit trade in mica. In the past licences to operate have been granted carelessly (very little capital is required for mica mining at present). Ending mica piracy will be difficult, as mica fields are spread over an area of 1500 squares miles in the jungle. The richest deposits are found in the Hazaribagh district.

The war has brought prosperity to the industry ; mica is perhaps the only raw material which is carried by air from India to America.

There is need for conserving mica resources for the time when an Indian electrical industry may come into existence.

The mica industry is predominantly Indian, only one firm being Anglo-American. But as world attention has been drawn to our mica it is quite possible that more foreign companies may appear on the scene.

* Records of the Geological Survey of Indian, Vol. LXXVI. Bulletin of Economic Minerals, No. 10, P. 2.

† See *Eastern Ecnomist*, dated April 21, and May, 5, 1944.

Mica has been mined in India for about 70 years, but it is only during the war that the importance of the industry has attained recognition.

The Government of India have appointed a committee to investigate conditions in the mica industry.

12. The Grady Mission.

An American Technical Mission, with Mr. Grady as its chairman, visited India in the summer of 1942. It was concerned with India's war effort. The Mission found that most of our engineering shops were 'jobbing shops', which means that they were establishments existing in order to maintain other plants in repair. To adapt such shops to the requirements of mass production, new equipment was needed, equipment had to be transferred from one shop to another, and re-arranged within the existing shops. America undertook to supply new equipment; the Mission also recommended the sending out to India of at least six American industrialists and a number of technicians to speed up war production. There was much scope for the expansion of output. With proper planning, rationalisation and equipment from America, production, it was estimated, could be increased from 200 to 250 per cent.

The Mission specifically advised further investigation into the possibility of producing power alcohol; measures to extend the availability of electric power and to rationalise its use; the expansion of the steel industry; the nationalisation of plants producing munitions; concentration in respect of aircrafts and chiefly upon repairs rather than new construction; greater production of aluminium; the conservation of tin and rubber and acceleration of the production of refined sulphur. They approved of the labour-training schemes of the Government of India and recommended their rapid and substantial expansion. Private industry was to be rigidly-controlled, and, finally, a war cabinet was to be created to co-ordinate war activities and supplies. This war cabinet was to provide an over-riding authority at the centre which would view provincial and military necessities from an all-India angle, and which would have power to enforce its decisions. The recommendations of the Mission regarding the War Cabinet gave rise to much discussion. No War-Cabinet, as conceived by the Mission, has been established.

CHAPTER V

AGRICULTURE

1. General Effect.

The general effect of the war on Indian agriculture is brought out by the following statement:

Table V. 1.

Exports of principal agricultural commodities

		1938-39	1939-40	1940-41	1941-42	1942-43
Raw jute, 1000 tons	...	690	570	243	315	239
Raw cotton, 1000 bales	...	2,703	2,948	2,168	1,438	301
Oil seeds, 1000 tons	...	1,199	849	708	740	511
Lac, 1000 cwts.	...	644	760	598	765	417
Hides & skins, 1000 tons	..	35	32	27	55	35
Tea, million lbs.	...	348	359	349	382	322

The *heavy fall in the exports of raw jute, raw cotton* and oil-seeds will be noted. The fall in the case of lac and tea is less marked. Of tea India produced 562 million lbs. in 1942-43 as compared with 452 million lbs. in 1938-39, a record increase of over 100 million lbs. The exports of lac in 1941-42 were greater than in 1938-39; the same is true of hides and skins.

The outbreak of war had aroused hopes of increased exports of primary commodities required for war purposes, and prices began to rise. But military events during 1940 and, later, the entry of Japan into the war caused the loss of large and important markets. Exports declined and huge surpluses arose. Growers of raw jute, raw cotton and oil-seeds suffered great hardships, until a balance was restored between production and consumption. The position in regard to food-crops will be examined separately.

2. Raw Jute.

The rise of prices in the closing months of 1939 and expectation of increased exports led to a large increase in the acreage under jute. There was a record crop, but the loss of continental markets reduced exports and the reduction in the export demand for jute goods caused a heavy reduction

in the mill consumption of raw jute. The 1940-41 season closed with exceptionally heavy unsold stocks. Government intervened with an intensive policy of jute restriction, and the acreage for the next season was fixed at ⅓rd of the 1940 area. This policy has been continued and it has been assisted by the rise in the price of rice and the 'grow more food campaign'. There was no other means of restoring the balance between supply and demand.

3. Raw Cotton.

The cotton grower was hit, first by the loss of continental markets, and much harder by the loss of the Japanese market. In this respect the position is very different during this war as compared with the last world war. Then the loss of continental markets was compensated by increased purchases by Japan.

During the 1940-41 season exports of raw cotton to Japan, China and other Far Eastern countries represented no less than 74 per cent of total exports. Heavy dislocation of the trade was caused particularly because these markets were the largest consumers of Indian short-staple cotton. Long-staple cotton grown in India was easily absorbed by the mill industry, and large quantities were also exported in 1940-41 to Australia.

To meet the situation the Indian Central Cotton Committee recommended a curtailment of the area under short-staple cotton by half and the diversion of the acreage to food crops. In January, 1942, the Government of India stated in a Press note that they had in view "not merely immediate steps to steady the market by making purchases of raw cotton of the types concerned as suitable occasion arises, but also to assist the cultivators to change over from short-staple cotton to other more useful crops"—that is, cotton of longer staples and food-crops. A special fund was created by imposing an additional duty on imported raw cotton (of finer long-staple varieties) for relieving distress among growers of short-staple cotton.

Depressed conditions lasted till about the middle of 1942, and then actually a boom started. To curb speculation Government banned forward trading in new crops and options and further action was taken, with the same object, under the Defence of India Rules in May, 1943. The Cotton Trade pleaded for continuance of futures trading, urging that

prohibition would make the marketing of cotton difficult. The Cotton Committee of the Textile Control Board recommended the re-opening of trading in the hedge contract. Finally, a compromise was arrived at. Futures trading was permitted from the Diwali day (1943) under certain conditions prescribed by Government. These related to a range of maximum and minimum prices within which the futures contract was to move.

Cotton prices are under control, Government having prescribed maximum and minimum prices for about 14 varieties.

Increase in mill consumption. During the last world war there was no increase in cotton consumption by Indian mills, but Japan came to our rescue. In the present war the growth of Indian mill consumption has saved the situation. The estimated Indian mill consumption in 1942-43 is over 4,000,000 bales of 400 lbs. each as compared with a little over 3,000,000 bales in 1938-39. Throughout the period of the Great War (1914-18) Indian mill consumption was maintained around 2,000,000 bales.

Increased purchases by the United Nations and increased mill consumption have absorbed all the available supply of raw cotton.

Another satisfactory feature is increase in the proportion of acreage under improved varieties of cotton.

4. Groundnuts and Oilseeds.

The loss of important foreign markets created a glut in our oil-seeds markets in the early years of the war. The groundnut trade, particularly, suffered severely on account of the loss of markets in France and the Netherlands. The United Kingdom helped us with bulk purchases of groundnuts and linseed at fixed prices. Propaganda was carried on for the reduction of acreage and schemes were initiated for increased internal consumption, and the position showed signs of improvement. The Board of Industrial and Scientific Research is taking active interest in the better utilisation of vegetable oils.

A more hopeful view of the general agricultural situation is now taken than before. The Mediterranean route is now open to shipping and possibly more shipping space is also available. The expansion of war demand and increased

exports may, it is thought, even create a shortage of agricultural commodities which so recently experienced such a glut.

5. The Food Situation. Decline in Exports.

In view of about a million deaths by starvation in Bengal in 1943, and many more deaths due to 'mal-nutrition', the food situation requires a more detailed notice.

Since the Great War a great change has come over India in this respect. This is shown by the following statement:

Table V. 2.

Exports of food-grains in 1,000 tons

	Rice (not in husk)	Wheat	Total, including other food-grains.
1909-10 to 1913-14 (average)	2,398	1,308	4,411
1914-15 to 1918-19 (average)	1,685	807	3,141
1919-20 to 1923-24 (average)	1,462	237	2,009
1937-38	227	460	878
1938-39	282	279	742
1939-40	262	8	408
1940-41	251	45	458
1941-42	304	186	727

The heavy fall in the exports of rice is accounted for by the separation of Burma, but wheat exports had also practically disappeared at the beginning of the 'thirties'; their revival later was due to demand for 'security stocks' in view of the threatened outbreak of war.

The change as compared with 20 or 25 years ago in a few words is that India, a food exporting country, has now become a food importing country.

6. Production and Foreign Trade.

The position in recent years is shown by the following figures, which we borrow from the Report of the Foodgrains Policy Committee, 1943 :—

Year	Aggregate yield of seven food-grains. Crop years. Thousand tons.	Net quantities of food-grains* or foodgrain products imported (+) or exported (–). Financial year. Thousand tons
1935-36 ...	49,885	+1,742 †
1936-37 ...	55,481	+1,246 †
1937-38 ...	54,324	+ 629
1938-39 ...	49,584	+1,044
1939-40 ...	53,061	+2,221
1940-41 ...	50,173	+ 993
1941-42 ...	51,817	+ 431
1942-43 ...	53,928	– 361

* Including pulses

† Figures prior to separation of Burma are not strictly comparable with later figures.

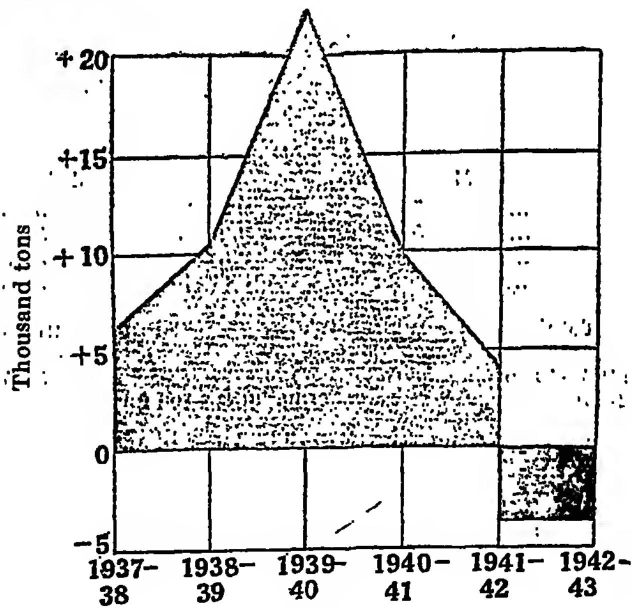


Fig. 13.

Showing the net quantities of food-grains or food-grain products imported (+) or exported (–) from 1937-38 to 1942-43.

Production statistics are incomplete, but the error due to this cause would be about constant from year to year. One

thing is clear and indisputable: there is no upward trend in production corresponding to the rapid growth of numbers. The stationary condition of the area under cultivation confirms this conclusion.

Referring to the large increase in the population of India during 1931-41 the Report of the Foodgrains Policy Committee says that "so large a population increase is itself inconsistent with any assumption of a progressive deterioration in the standards of consumption, which would not have permitted such a population increase to take place." Statistics of area and yield are notoriously defective, but it is extremely unlikely that more reliable statistics would produce a food supply expanding at the same rate as the population. Deterioration in the standards of consumption does not immediately check the growth of numbers, but only in the long run, by slowly undermining physique and disease-resisting power. India will have to play a heavy toll of life when epidemics come.

7. Net Amounts Available for Consumption.

The net amounts available for consumption (*i.e.*, production plus net imports or less exports) are thus estimated by the Foodgrains Policy Committee:

		Million tons.		Million tons.
1939-40	...	55·3	1935-36	51·6
1940-41	...	51·2	1936-37	56·7
1941-42	...	52·2	1937-38	54·9
1942-43	...	53·6	1938-39	50·6
Total		212·3	Total	213·6
Average (1939-40 to 1942-43)		53·07	Average· (1935-36 to 1938-39)	53·4

It is pointed out that these figures under-state production owing to the non-inclusion of some lands or defective information about other lands. But, again, unless the understatement was greater for the war period (which there are no strong reasons to believe) the conclusion would be justified that in spite of the growth of population there was no increase in the amount of food available for consumption. The incompleteness of food statistics provides no strong argument against the supposition of a shortage of food. And it would be absurd to suggest that because population is increasing, *per capita* consumption cannot have fallen or must be rising.

Assume that the supply of food is none too plentiful in the country. Then the war comes, and with it exports of food to over-seas countries and heavy Government buying for the Defence Services. The food situation would not be improved thereby. And it did deteriorate.

8. Factors contributing to shortage :

Wheat Exports. The exports of wheat, including wheat flour, expressed in terms of wheat, are shown below :*

	Tons
1939-40	80,000
1940-41	140,000
1941-42	310,000

These figures do not include exports on behalf of the Defence Services. In addition there was an increase in the demand of the Defence Services in India, and the piling up of military stocks. The exact amount of military purchases, by the Government of India for the Defence Services will never be known, but these purchases were the most important factor in raising the price of wheat in 1942 and 1943. The Foodgrains Policy Commitee, while recognizing that security reasons did not always allow a full statement of the facts to be made, still urged "the utmost candour on the part of the Food Department" in this respect.†

Rice. The rice position deteriorated on account of cessation of imports from Burma which totalled about 1·8 millions tons in 1939-40 and a bare 18,000 tons in 1942-43. The cyclone of October, 1942, and the widespread disease in the Aman paddy crop of Western Bengal were other adverse factors.

Hoarding and profiteering. Food has been hoarded by every one—ordinary consumers, traders and merchants, cultivators and landlords. The greatest profit out of the misery and starvation of the people has been made by non-working landlords, but certain provincial Governments did not fail to turn the rise of prices to their account.

Speculation, hoarding and profiteering aggravate a rise of prices. When scarcity, due to natural or artificial causes, or both, has begun to exercise its effect on prices, speculators, hoarders and profiteers appear on the scene—not before.

* *Review of the Trade of India*, 1941-42, p. 14.
† Report, p. 31.

Inflation: There is the following interesting reference to inflation in the Report of the Foodgrains Policy Committee:

"In the early months of 1943, an inflationist wave swept over India, and particularly, Western India. In the first quarter of this year the issue which was agitating the public was not food, but "Inflation". The mounting note-issues and the rise in the price of bullion were used as a justification for the rise in the prices of cotton piece-goods, and when these had risen their rise was used as a justification for a rise in other commodities not 'in line', and the rise in the latter was then utilised in justifying a still further rise in the former. Such developments could not leave the food-situation unaffected —the mere suggestion that the currency was becoming seriously depreciated must have affected food-prices, *via* withholding from sale, which could be justified on the ground that the holder was 'investing' in foodgrains as an anti-inflationary hedge."*

This is essentially a misleading view of the situation. Unfortunately the lead in this matter was given by the statement of 20 Indian economists, to which we have referred before. They were swept off their feet by the 'inflationist wave'. The statement was of value in emphasizing that there was no difference between the creation of paper money to finance a budget deficit and that for financing Allied purchases, but it misinterpreted the rise of prices.

We have already seen that inflation is only a means of diverting resources from civil to war purposes. Prices rise because of this diversion, or the resulting scarcity. Other means may be employed to achieve the same purposes, *e.g.*, gold sales, or commandeering of stocks. There would be no 'inflation', but prices would still rise.

Increased demand. It is possible that the cultivator increased his consumption. It is also possible that those in receipt of higher money incomes also started eating more.

The Report of the Foodgrains Policy Committee says:

"An over-all increase in daily copsumption of one *ounce* per head, with a population of 400 millions, would involve a total increase in demand of some 4 million tons of food per annum. It is therefore the cumulative effect of a number of factors, all working in the same direction which has produced the present crisis".†

* Report, p. 3.

† Report, p. IV.

9. Remedial Measures.

The remedial measures recommended by the Foodgrains Policy Committee are the following:

I. **An increase in available supplies.** (*a*) *Cessation of Food Exports.* To meet the shortage of food the most important step is to increase the available supplies. Exports of food, particularly of rice, must cease for the duration of the war. Not a ton of foodgrains must go out of India without 'the most convincing guarantees' that an equal amount would be made available to us. "There must be no nibbling at this principle and it must be made fully clear to all the parties interested that this is the considered and irrevocable policy of the Government of India." (P. 32)

(*b*) *Food Imports.* India requires 500,000 tons of foodgrains to build up a Central Foodgrains Reserve. This amount is to be imported. Further 1,000,000 tons of foodgrain imports are required for current consumption every year. India thus definitely becomes a food-importing country.

(*c*) '*Grow more Food Campaign.*' This is to be encouraged by the following measures:

(1) Large scale distribution of improved seeds.

(2) Better utilisation of night-soil and town refuse as manure and the manufacture of ammonium sulphate to the extent of 350,000 tons a year.

(3) Encouragement of irrigation and drainage schemes which promise quick results.

(4) Steps to be taken to prevent depletion of India's serviceable milch and draught cattle.

(5) Importation of tractors and other agricultural implements.. Adequate quantities of iron and steel should be made available for the replacement of worn-out or defective agricultural implements.

(6) Supplies of fuel and lubricating oils for agriculturists should be increased.

(7) Provincial Governments should be empowered to regulate crop production and to compel the cultivation of culturable waste-lands.

II. **Improvement of procurement machinery.** Procurement machinery signifies means whereby home-grown supplies of food are made available for consumption.

India may be divided into surplus and deficit provinces from the point of view of food. Assam, Bengal, Bombay and Travancore, Bihar, N.W-F.P. and Madras are net importers of food, and the Punjab, U. P., Sind, C. P. and Berar net exporters. It is not possible to 'marry' the deficit in a particular foodgrain with a surplus of the same foodgrain. Some changes in the habits of, *e.g.*, rice-eaters, will be necessary.

It is obvious that, apart from imports, the deficit in one part of the country must be made up from the surplus of other parts. But how?

The Committee does not recommend Provincial monopolies, nor a Central Government Foodgrains monopoly. It does not favour compulsory requisitioning at a fixed price. It recommends increasing the inducement to the cultivator to sell. The cultivator should be provided with adequate supplies of the goods he needs, and Government should also secure supplies of the precious metals for sale to the cultivator.

III. **Measures to secure a more equitable distribution of available supplies, or the extension of rationing.** The Committee recommended the extension of rationing to all large cities with a population of one lakh and over. The minimum standard laid down for rationing is 1 lb. of cereals per adult per day.

IV. **Extension of the principle of statutory price control.** Soon after the outbreak of war, the foodgrains trade ceased to operate freely as before the war—it was affected by various Government measures. In this sense 'price-control was operating practically in every hole and corner of the country'. Still prices rose as shown above.

Statutory price control means enacting legislation prohibiting a seller from taking or a buyer from offering more than the prescribed price. It is this statutory price control that was recommended by the majority of the Committee.

Statutory price controls pre-suppose adequate procurement machinery, rigid enforcement of the Food-Grains Control Order (issued in May, 1942), effective control over transport, and the existence of a Central and also of Provincial Reserves.

The Committee have argued the case for control by the Centre. The Report says ;

"We do not believe that the fixing of a statutory price is a matter in which the Province primarily concerned has a sole or unique interest, whether it is a surplus or a deficit Province. Our desire is to restore, as far as it is possible under present conditions, an all-India system of prices."

This does not mean the same statutory price for a food-grain in every part of the country. In considering the level of prices of food-grains appropriate to a particular area regard should be had to (*a*) the cost of articles entering into the cultivator' cost of production, (*b*) cost of articles entering into his standard of life, and (*c*) cost of cultivation of marginal lands.

There was strong opposition to statutory price control on the part of landlord members of the Punjab Legislative Assembly, and their spokesmen, certain Punjab Ministers. They opposed the measure in the interests of 'growers', including among 'growers' the non-working landlord.

V. **Readjustment of the relations between the Provinces and the Centre.** This is the last, but not the least important of the remedial measures recommended by the Foodgrains Policy Committee.

Agriculture is a transferred subject, and the view is taken in certain provinces (*e.g.*, the Punjab,) that Government of India should leave the luckless consumer to the tender mercies of the Provincial Government. The consequences of this, when a Provincial Government primarily represents the interests of a non-working class of exploiters, are not pleasant to contemplate.

The Report of the Foodgrains Policy Committee requires the Centre to have 'the last word' as regards the following:

(*a*) Price changes, (*b*) allocation of supplies, (*c*) the management of the Central Foodgrains Reserve, (*d*) any conditions laid down for rescue or special assistance operations, and (*e*) details of administration.

10. Measures to Grow More Food.

The Foodgrains Policy Committee, as we have seen, asked the Government to promote the production of compost from night soil and town refuse and the manufacture of ammonium sulphate.

M. S. Krishnan discusses the use of phosphates in the Records of the Geological Survey of India. The output of

raw mineral phosphates in India is negligible, but two non-mineral sources of phosphorus, useful as fertilisers, deserve to be developed. They are phosphoric slag from steel working furnaces, and animal bones.

Considerable quantities of basic slag are produced in western Europe, Russia and the United States, and used as a fertiliser material. In India about 100,000 tons of basic slag are tapped from the furnaces every year. The slag may be cooled, crushed and further ground, to be used as a soil conditioner.

Definite information about the use of animal bones and bone meal as fertilisers is lacking, but considerable quantities of bones and bone meal are exported. Mr. Krishnan says: "The country thereby sustains a double loss, because of the loss of a valuable raw product and of the advantages accruing from the establishment of a home industry, and also because it has to pay a high price on the imported manufactured product and freight thereon."*

In the calendar year 1939 the value of exports of manures was Rs. 49 lakhs, and of imports, Rs. 120 lakhs. The Agricultural Commission, as we have seen,† did not favour restriction of exports.

11. Change in Government Food Policy.

The Government of India have accepted the main recommendations of the Foodgrains Policy Committee. The old Food policy has been abandoned. It was thus explained by Sir J. P. Srivastava's predecessor in office, Sir Azizul Haque:

"We have to work under a constitution under which the Provinces function as autonomous units with responsibilities of their areas within their own sphere......And we have no right to interfere in matters within the scope of provincial responsibilities..."

The new Food member thus stated his food policy at the all-India Food Conference held in 1943.

"Whatever may have been the case in normal times, what goes on in each Province or State in the matter of production, distribution and utilization of food supply can no longer

* Bulletins of Economic Minerals, No. 4, P. 34, Vol. LXXVI.
† Vol. I, p. 53.

be regarded as the undivided concern of that Province or State...On the mobilization of India's resources the Government of India will have to take, and implement, decisions which may, at times, conflict with what appear to be local or sectional interests...We can no longer afford either failure or the prospect of failure, and I, in the discharge of the duty which is mine, shall not hesitate to exercise whatever degree of superintendence and control at every stage may be necessary, or to invoke and use whatever powers are essential to ensure success."

Government's food policy has thus fundamentally changed. The Centre means to enforce its will on the Provinces, and this is the most essential condition for an all-India control of food prices.

The new food policy is based on seven cardinal points :

(1) Prohibition of exports.
(2) Procurement of imports.
(3) Extension of urban rationing.
(4) Rigid enforcement of the Foodgrains Control Order.
(5) Improvement of the procurement machinery.
(6) Price control.
(7) Association of informed public opinion with the working of the Food Department.

The Food Department was created in December, 1942, and its first action was to draw up a Basic Plan to meet the food deficits of certain parts of the country with surpluses obtained from other parts. The Basic Plan was drawn up on the principle that the annual requirements of each food-grain should not exceed the lowest figure during the three years immediately preceding the war. The Basic Plan achieved the distribution of 1,240,000 tons of foodgrains in 7½ months. A Revised Basic Plan came into operation from the 1st of August, 1943. It was drawn up on the basis of surpluses declared by the Provinces and States. The aim of the Revised Basic Plan was the distribution of 1,400,000 tons of food-grains from surplus to deficit areas from August, 1943, to March, 1944. A new Plan is in operation at present.

12. Present position.

Considerable progress in rationing has been made in different parts of India. Speaking on July, 20, 1944, the Food Member gave 226 as the number of cities and towns which were already under rationing. The population of these cities and towns is 35 millions.

Exports of food have been prohibited and substantial quantities have been imported. 'I shall never let up on the question of imports', said the Food Member. The procurement machinery is being improved and the working of systems of Government monopoly purchase is being studied. A Price Advisory Panel has been established, including representatives of the trade and of producers. Statutory prices on an all-India basis have been fixed for wheat, *bajra* and *jowar*, combined with price guarantees to the producer. Statutory controls are operating for rice in every important area, but they have not yet been co-ordinated on an all-India basis.

As for the future, four points are receiving Government attention

(*a*) Production has to be increased. To ensure that the marketable surplus is actually available for distribution, production has to be linked up with procurement.

(*b*) Facilities for the storage and conservation of grain have to be improved. In order to secure better qualities, the standards of inspection must be raised.

(*c*) To ensure an equitable distribution between surplus and deficit areas the system of rationing has to be improved and extended.

(*d*) There is need for increased production and equitable distribution of protective foods, particularly milk.

CHAPTER VI

ECONOMIC CONTROLS AND THEIR SIGNIFICANCE

When war breaks out Government virtually assumes the role of a dictator. We have noticed some of the measures of control in the preceding pages; here we may more fully review the restrictions imposed by the Government of India for 'securing the defence of British India or the efficient prosecution of the war, or for maintaining supplies and services essential to the life of the community.'

(*A*) Defence of India Rules.

Under the Defence of India Rules the Central or Provincial Government may

(1) regulate or prohibit the production, treatment, keeping, storage, movement, transport, distribution, disposal, acquisition, use or consumption of articles or things of any description whatsoever;

(2) collect any information or statistics with a view to the rationing of any article essential to the life of the community;

(3) control the prices at which articles or things of any description whatsoever may be sold or hired;

(4) regulate the letting or sub-letting of any accommodation, whether residential or non-residential, whether furnished or unfurnished and whether with or without board, and in particular :—

(*a*) control the rents for such accommodation,

(*b*) prevent the unreasonable eviction of tenants and sub-tenants from such accommodation,

(*c*) require such accommodation to be let to specified persons,

(5) require any employers or class of employers to supply to all or any class of their employees (and their dependents) food or foodstuffs in specified quantities and at specified prices.

Control of Undertakings. The Central or Provincial Government may by order authorise any person to exercise, with

respect to an existing undertaking, or any part thereof, specified functions of control. The authorised Controller shall exercise his functions in accordance with Government instructions, and any person having any functions of management in relation to the undertaking, or part thereof, shall carry out the instructions of the authorised controller.

Currency. No person shall buy or sell or accept in payment of a debt any coin or note for an amount other than its face value.

No person shall (*i*) refuse to accept in payment of a debt, or otherwise, any coin or note, or (*ii*) acquire coin or small coin to an amount in excess of his personal or business requirements for the time being.

Advances of money on security. The Central Government may:

(*i*) prohibit or restrict either generally, or in respect of any specified class or persons or any specified class of transactions, the making of advances of money on the security of specified commodities (including bullion.)

(*ii*) require the repayment of any such advances outstanding on the date of the order within a spcified period.

(*B*) Anti-Hoarding and Profiteering Ordinance, 1943.

The uncertainties of war and the inevitable rise of prices lead to hoarding and profiteering. The more important provisions of the Anti-Hoarding and Profiteering Ordinance of 1943 are summarised below:

Fixing of maximum quantities which may be held or sold and maximum prices:—

(1) The Central Government may, by notification in the Official Gazette, fix in respect of any article:—

(*a*) the maximum quantity which may at any one time be possessed by a dealer or producer;

(*b*) the maximum quantity which may, in any one transaction, be sold to any person;

(*c*) the maximum price or rate which may be charged by a dealer or producer.

(2) The quantities and prices or rates fixed in respect of any article under this section may be different in different localities.

Restrictions on price where no maximum is fixed. Where no maximum price is fixed, no dealer or producer shall sell an article for a consideration which is unreasonable.

A consideration (whether it is in money or not) is unreasonable if it exceeds the amount represented by an addition of 20 %, or the addition allowed by normal trade practice, whichever is less, to :—

(*a*) the landed cost of the article in the case of an imported article ;

(*b*) the cost of production of the article in the case of other articles.

General limitation on the quantity to be possessed at one time. The quantity of an article possessed by any one shall not exceed three months' requirements, for himself and his family, except in special cases.

Duty to declare possession of excess stocks. Excess stocks must be reported to the Controller General or other authority.

Refusal to sell. No dealer or producer shall, unless previously authorized to do so by the Controller General or other officer empowered in this behalf by the Central or the Provincial Government, without sufficient cause refuse to sell to any person any article within the limits as to quantity imposed by this Ordinance.

Explanation. The possibility or expectation of obtaining a higher price for an article at a later date shall not be deemed to be a sufficient cause for the purpose of this action.

Cash memorandum to be given of certain sales. (1) Every dealer or producer when selling any article for cash shall, if the amount of the purchase is ten rupees or more, in all cases, and, if the amount of the purchase is less then ten rupees, when so requested by the purchaser, give to the purchaser a cash memorandum containing particulars of the transaction.

Marking of prices and exhibiting price list :—(1) The Controller General may direct any dealer or producer to mark articles exposed or intended for sale with the sale prices or to exhibit on his premises a price list of articles held by him for sale, and may further give directions as to the manner in which any such direction as aforesaid is to be carried out.

(2) No dealer shall destroy, efface or alter any label or mark affixed to an article and indicating the price marked by a producer.

Powers of Controller General, Inspectors, etc. :—(1) The Controller General, or an inspector or an officer empowered in this behalf by the Central, or the Provincial Government, may :

(*a*) direct a dealer or producer to maintain records of all sale and purchase transactions ;

(*b*) direct a dealer or producer to furnish any information he may require as to the business carried on by such dealer or producer ;

(*c*) direct a dealer or producer to furnish any information possessed by such dealer or producer as to the business carried on by any other person ;

(*d*) inspect or cause to be inspected any books or other documents belonging to or under the control of any dealer or producer ;

(*e*) enter and search, or authorize any person not below the status of a gazetted officer to enter and search any premises ;

(*f*) seize or authorize the seizure of any article in respect of which he suspects that an offence under this Ordinance has been committed, and thereafter take or authorize the taking of all measures necessary for securing the production of the article in a Court.

(C) Control of Speculation.

It is necessary to control speculative activity as it may bring about violent and un-warrantable fluctuations of prices (*e.g.*, in the price of gold and raw cotton in 1943)

FORWARD CONTRACTS AND OPTIONS.

1. Bullion (Forward Contracts and Option) Prohibition Order, 1943.

No person shall enter into any forward contract or option in bullion.

"Forward contract" means a contract for the delivery of bullion at a future date, such date being later than two clear working days from the date of the contract ;

"Option in bullion" means a contract made, or to be performed in whole or in part, in British India for the purchase

or sale of a right to buy, or a right to sell, or a right to buy or sell bullion in future, and includes a *teji*, a *mandi* or a *teji-mandi* in bullion.

2. Cotton Cloth and Yarns (Forward Contracts Prohibition) Order, 1943.

No person shall, after the 24th June, 1943, enter into any forward contract in respect of cloth or yarn.

The provision of this Order shall not apply to forward contracts for cotton cloth or yarn of specified qualities and for specified delivery at specified prices, against which delivery orders, railway receipts or bills of lading and other documents of title are not transferable to third parties.

3. Cotton (Forward Contracts and Options Prohibition) Order, 1943.

No person shall enter into :—

(*a*) any forward contracts in respect of new crops, or

(*b*) any option in cotton.

All contracts entered into after the commencement of this Order in contravention of the above clause shall be void.

4. Cotton (Forward Contracts in current Crops Prohibition) Order, 1943.

No person shall, after the 20th May, 1943, enter into any forward contract in respect of current crops.

Notwithstanding any custom, usage or practice of the trade, or the terms of any contract or any regulation of an association relating to such contract :—

(1) Every contract outstanding at the close of business on the 20th May, 1943, shall be deemed to be closed out at such rate as the Central Government may, by notification in the official Gazette, fix in respect of any cotton or class of cotton.

(2) All differences arising out of any contract so deemed to be closed out shall be payable on the basis of the rate fixed as aforesaid and the seller shall not be bound to give, and the buyer shall not be bound to take, delivery.

(3) Payment of all differences legally due to a member of an Association by another member of such Association in respect of any contract closed out under this clause shall be made through the Clearing House of the Association, and for the purpose of calculating such differences the rate fixed by the Central Government under sub-clause (1) shall be deemed

to be the settlement rate fixed by the Association under its by-laws or other regulations which shall, for the relevant purpose, continue to have effect subject to the provisions of this Order.

5. Foodgrains (Futures and Options Prohibition) Order, 1943.

After the commencement of this Order no person shall :—

(*a*) save with the permission of the Central Government or of an officer authorised by the Central Government in this behalf, enter into any "futures in foodgrain", or pay or receive, or agree to pay or receive, any margin in connection with any such futures;

(*b*) enter into any options in foodgrains.

Any futures in foodgrain entered into before the commencement of this Order and outstanding for settlement shall be settled at the prevailing market rate applicable to the agreement at the close of transactions on the 17th May, 1942.

All options in foodgrains entered into before the commencement of this Order and remaining to be performed, whether wholly or in part, shall be void within the meaning of the Indian Contract Act, 1872, and shall not be enforceable by law.

6. Oilseeds (Forward Contracts Prohibition) Order, 1943.

This order prohibited forward contracts in the following oilseeds :—groundnut, linseed, mustard seed, rapeseed (*toria*), castor seed, cotton seed, and sesamum (*Til* or *Jinjili*).

7. Securities (*Budla* Transactions) Prohibition, 1943.

No Stock Exchange shall, after the 24th September, 1943, permit, or afford facilities for :

(*a*) the transaction of *budla*,

(*b*) the making of any contract other than a ready delivery contract, or

(c) the carrying out as settlement of any *budla* transaction, or any contract other than ready delivery contract.

In this Order :—

(*a*) "*budla*" includes a contango and a backwardation and any other arrangement whereby the performance of any obligation, under a contract, to take or give delivery of securities within a stipulated period, is postponed to some future date in

consideration of the payment of receipt of interest or other charges ;

(*b*) "contract" means a contract made, or to be performed in whole or in part, in British India relating to the sale or purchase of securities ;

(*c*) "ready-delivery contract" means a contract which must be performed by the actual delivery of, or payment for, the securities specified therein on a date not later than the seventh day (or, if the seventh day happens to be a holiday, the business day next following) from the date of the contract ;

(*d*) "securities" include stock, shares, bonds, debentures and debenture stock and any other instrument of a like nature.

(*D*) Capital Issues.

A modern war cannot be waged without 'created money'. 'Created money' enriches certain classes, and they have more meney to invest. Bank deposits expand and new banks are founded. Rising prices create a general impression of business prosperity, and new undertakings are projected. There is a danger of over-investment in certain fields, and the new investments, unless controlled, would reduce the supply of men and material required for waging war. The rise of mushroom companies must also be prevented. Finally, the control of capital-issues has an anti-inflationary effect.

Control of Capital Issues. Notification dated 17th May, 1943.

Subject to such exemptions as may be granted by order of the Central Government, no company, whether incorporated in British India or not, shall, except with the consent of the General Government :—

(*a*) make an issue of capital in British India ;

(*b*) make in British India any public offer of securities for sale ;

(*c*) renew or postpone the date of maturity or payment of any security maturing for payment in British India ;

(*d*) no company incorporated in British India shall, except with the consent of the Central Government, make an issue of capital anywhere ;

(*e*) no person shall issue in British India any Prospectus or other document offering for subscription, or publicly offering for sale, any security which does not include a statement that the consent of the Central Government has been obtained to the issue or offer of the securities.

(*E*) Production and Distribution.

Finally, we may notice measures to control production and distribution, which lead to the stabilisation of prices.

Immediately on the outbreak of war, control is imposed on foreign exchange transactions, and exports and imports. The effect of these measures is to create a 'closed' economy, in which internal prices can be controlled by the effective regulation of internal supply and demand. Such regulation is made essential by the need for diverting resources to war-purposes. 'Created money' effects this diversion.

FOOD STUFFS

1. Foodgrains Control Order, 1942.

No person shall engage in any undertaking which involves the purchase, sale, or storage for sale, in wholesale quantities, of any foodgrains except under, and in accordance with a licence issued in that behalf by the Provincial Government, ["or by an officer authorised by the Provincial Government in this behalf".]

For the purpose of this clause any person who stores foodgrains in quantities exceeding 40 maunds may, unless the contrary is proved, be deemed to store the foodgrain for purposes of sale.

Licences issued under this Order shall be in Form A, and shall specify :—

(*a*) the foodgrain or foodgrains in which the licencee may deal ;

(*b*) the place or places at which the licencee may carry on the licensed undertaking.

2. Gur Control Order, 1943.

The Controller may, from time to time, fix by notification in the official Gazette, for any specified area the maximum price at which Gur may be sold or delivered, and different rates of price may be so fixed by him for different areas or different types or grades of Gur.

Every producer and dealer shall comply with such directions regarding the production, sale, delivery, stocks, distribution or prices of Gur as may from time to time be given by the Controller.

If in the opinion of the Controller the unregulated production of Gur in any area is likely to affect adversely the

production of sugar in quantity which in his opinion is required for the needs of the community, he may, by order published in the official Gazette, provide for all or any of the following matters :—

(*a*) prohibit or restrict the export of sugarcane to any place outside the area ;

(*b*) direct that cane growers in that area shall deliver sugarcane to a specified sugar factory or factories in accordance with such conditions in regard to quantity, price, and time of delivery as may be specified by the Controller ;

(*c*) prohibit, or restrict to such qualities or quantities or both as may be specified by the Order, the manufacture of Gur by all or any class of producers in the said area.

The Controller may from time to time :

(*i*) allot quotas of Gur for the requirements of any specified province or area, or of any specified market, and

(*ii*) issue directions to any producer or dealer to supply Gur to such areas or markets or such persons or organisations, in such quantities, of such types or grades, at such times, at such prices and in such manner as may be specified by the Controller.

No Gur shall, after such date and from such area as the Controller may notify in this behalf, be offered for transport by railway or in any manner whatsoever by land or river by a consignor, or accepted by a railway servant or by any person whatsoever for transport, or transported by rail, road or river except under a permit issued by the Controller in such form and subject to such conditions and in respect of such areas as he may from time to time prescribe.

3. Sugar and Sugar Products Control Order, 1943.

(1) If the Controller has reason to believe that the production of special types of sugar products is likely to affect adversely the production of adequate quantities of ordinary sugar, he may, by general or special order, prohibit, or limit to such quantitis as may be specified in the order, the manufacture by any producer or by producers generally of such types or grades of sugar or sugar products as the order may specify, and no producer to whom such order applies shall manufacture any sugar or sugar products in contravention thereof.

(2) For the purposes of sub-clause (1) "producer" includes a person carrying on the business of manufacturing any form

of sugar containing more than 90 per cent sucrose including Khandsari sugar, Desi sugar and *Bura*.

The Controller may, from time to time, fix the price at which any sugar or sugar product may be sold or delivered.

The Controller may, from time to time :—

(*i*) allot quotas of sugar or sugar products, or of both, for the requirements of any specified province, or. areas, or market,

(*ii*) issue directions to any producer or dealer to supply sugar or sugar products to such provinces, areas or markets or such persons or organisations, in such quantities, of such types or grades at such time, at such prices and in such manner, as may be specified by the Controller, and

(*iii*) require any producer or dealer to keep in reserve stocks of sugar products in such quantities and of such types and grades as he may direct from time to time.

4. Wheat Control Order, 1942.

No person shall export or import any wheat except under and in accordance with a permit issued in that behalf by the Wheat Commissioner :

Provided that nothing in this clause shall apply to the export or import of wheat :—

(*a*) not exceeding two and a half maunds in weight by a *bona fide* traveller as part of his personal luggage ;

(*b*) under and in accordance with military credit notes ;

(*c*) before the 1st June, 1942, under and in accordance with a permit duly issued by any provincial authority,

5. Cotton.

(1) **Cotton Movements Control Order, 1942.** No person shall offer cotton for transport by rail or cause any consignment of cotton to be transported by rail except by a permit.

(2) **Cotton yarn Order, 1942 (Bombay).** No person in the province of Bombay shall sell, store for sale or carry on business in cotton yarn except under a licence.

(3) **Import of cotton in the City of Bombay, 1942.** No person shall move cotton into the city of Bombay by road, rail or sea except under a licence.

6. Cotton Cloth and Yarn.

(1) **Cotton cloth and yarn (Control) Order, 1943.** The Central Government may constitute a Textile Central Board

consisting of 15 members to advise the Central Government through the Textile Commissioner generally on matters connected with cotton cloth and yarn control.

The Textile Commissioner may, from time to time, issue directions in writing to any manufacturer regarding the classes or specifications of cloth or yarn, and the maximum and minimum quantities thereof, which he shall or shall not manufacture during a specified period.

No manufacturer or dealer shall, without sufficient cause, refuse to sell cloth or yarn to any person.

No manufacturer shall, save with the permission of the Textile Commissioner, at any time hold :—

(*a*) stocks of cloth exceeding the total quantity manufactured by him during the preceding three months, or (*b*) stocks of yarn not required by himself for manufacturing cloth, exceeding the quantity of yarn manufactured by him during the preceding two months.

No dealer or other person not being a manufacturer, shall, at any time, hold stocks of cloth or yarn in excess of his normal requirements.

The Textile Commissioner may :—

(*a*) require any person to give any information in his possession with respect to any business carried on by that or any other person,

(*b*) inspect books or other documents belonging to, or under the control of any person,

(*c*) enter and search any premises, and seize any cloth or yarn in respect of which a contravention of this order has been committed.

(2) **Cotton Cloth Movements Control Order, 1943.** No person shall offer for transport, or cause to be transported by rail, any consignment of cotton cloth except by a permit.

(3) **Cotton Textiles Sizing and Filling Control Order, 1943.** The use of sizing or filling material, or both, of any description, exceeding in the aggregate 10 % of the weight of the cotton in the cloth, is prohibited. (In certain cases the limit is 15%.)

7. Building.

(*a*) **Brick (control of distribution) Order, 1943.**

No person shall acquire any bricks except by a written order of the Controller, or a licence granted by the Controller.

A person acquiring bricks under the above provision shall not use the bricks otherwise than under prescribed conditions.

Specified kinds of bricks shall not be sold at a price higher than the fixed price.

8. Cement.

Disposal of Cement. The cement companies shall supply cement, or dispose of any cement, only in accordance with the instructions of the Government of India.

Transportation of Cement. Cement shall not be transported except under a permit issued by authority.

Cement for private use. Members of the public can ask for cement if they require it for essential repairs and extensions to property, the completion of construction of private buildings, the improvement of sanitation and as an aid to the production of food crops.

9. Chemicals.

(1) **Agar Control Order, 1942.** No person shall, except under the authority of a permit granted in this behalf by the Director General:

(*a*) sell or otherwise dispose of *agar*.

(*b*) use *agar* otherwise than as a medium for the culture of micro-organisms.

(*c*) manufacture *agar*.

(2) **Bleaching Powder and Chlorine Control Order, 1943.** No manufacturer or importer shall sell or otherwise transfer bleaching powder or chlorine except by Government permission.

No permit for civil purposes shall be issued unless all the requirements of defence orders and public health purposes have been met.

(3) **Chrome Compounds Control Order, 1941.** No chrome compounds shall be used in any textile industry except for the manufacture of goods ordered by the Central Government and to the specified extent.

No person shall sell, or otherwise dispose of, chrome compounds except under licence.

In issuing a licence the price shall be fixed at which the chrome compounds shall be supplied.

(4) **Essential Drugs (Census) Order, 1941.** Any person engaged in the business of manufacturing or importing drugs, whether wholesale or retail, shall submit to specified authority a return showing:

(*i*) the quantity of any essential drug in his possession on a specified day,

(*ii*) exact location of all godowns used for storing essential drugs.

He shall also keep a record of any purchase or sale made by him of essential drugs.

(5) **Hydrosulphate of Soda (Control) Order, 1943.** No person shall sell, or otberwise dispose of, or purchase or otherwise acquire, Hydrosulphate of Soda except under a licence.

(6) **Sulphate of Alumina (Control) Order, 1943.** No person shall use or purchase or otherwise acquire sulphate of alumina for any purpose except under a licence.

(7) **Sulphuric Acid (Control) Order, 1942.** Sale, except through valid licencees, is prohibited. Manufacturers are registered. The Central Government may, from time to time, fix the prices at which manufacturers shall supply sulphuric acid to consumers.

10. Cinematograph.

Footage Control Order, 1942. No person shall produce any Cinematograph film the length of which exceeds 11,000 feet, or any trailer the length of which exceeds 400 feet.

The production of advertising trailers is prohibited.

11. Fuel.

Kerosene Licensing Order, 1942. On and after the 3rd August, 1942, no person shall engage in any undertaking which involves the sale, or storage for sale, of kerosene except under a licence.

12. Machinery.

(1) **Air Conditioning Units Order, 1943.** Prohibits the sale of air conditioning units of given specifications.

(2) **The Typewriter Control Order, 1943.** Prohibits the sale of typewriters except on the presentation of a permit.

(3) **Machine Tool Control Order, 1941.** Licenses the import, production and sale of scheduled machine tools.

13. Metals.

(1) **Aluminium Control Order, 1943.** No manufacturer shall acquire or use any aluminium except in accordance with the terms and conditions of a certificate.

No person shall sell, or otherwise transfer, any aluminium other than aluminium scrap or aluminium alloy, except to a manufacturer holding a valid certificate, or in accordance with a permit.

(2) **Iron and Steel (Control of Distribution) Order, 1941.** No person shall acquire any iron or steel except with the permission of the Controller or other Authority.

No person shall dispose of or export iron or steel except to authorised persons.

The use of iron and steel shall conform to conditions governing acquisition.

The Controller may prohibit the manufacture, by a producer of iron or steel, of specified categories of iron or steel, except in accordance with his directions.

He may require any producer to obtain his (Controller's) approval to his programme of manufacture of specified categories.

He may require any producer to manufacture iron or steel of such categories as he is capable of manufacturing in accordance with his (Controller's) instructions.

(3) **Iron and Steel Movement by Rail, Road or River Orders.** Two orders issued in 1942 prohibit the movement of iron or steel by rail, road or river except with Government permission.

(4) **Iron or steel (Demand for Information) Order, 1942.** Any producer, stock-holder or other person holding stocks in excess of one cwt. in all of iron or steel of specified categories shall furnish a statement showing the weight of the different sections of each category stocked by him.

(5) **Iron and Steel (Scrap) Control Order, 1943.** Prohibits acquisiton and disposal of scrap except with the Controller's permission, and empowers the Controller to fix prices for different classes of scrap.

(6) **Non-Ferrous Metals Control Order, 1942.** Prohibits the acquisition or sale of more than 1 lb of tin or lead fuse wire or 20 lbs. of copper wire, or 1 cwt. of any other controlled

non-ferrous metal, in one calendar month except with a permit.

(7) **Non-Ferrous Metals (Movement by Rail) Order 1943.** Prohibits the movement of non-ferrous metals by railway, except under the Controller's instructions.

(8) **Pipes Control Order, 1942.** No producer, importer or stock-holder shall sell, or otherwise dispose of, any pressure pipes, except with the Controller's permission. 'Pipes' include all pipes or tubes for carrying water, gas or other substance, of $\frac{1}{8}''$ nominal bore or above.

14. Sisal and Aloe Fibre Production Control Order. 1943.

Requires registration of manufacturers or sellers of ropes, cordages, twines and other goods made of *sisal* or of aloe or of both *sisal* and aloe.

7684

15. Starch Control Order, 1943.

No person shall use wheat, rice, or potato in any form for the manufacture of starch except with the permission in writing of the Starch Controller, and in accordance with such terms as may be laid down by him in this behalf.

No person shall sell or otherwise dispose of, or purchase or otherwise acquire starch except against a valid licence granted by the Starch Controller, or in pursuance of a direction given under clause 6 of this order.

16. Motor.

(1) **Motor spirit Rationing Order, 1941.** Motor spirit required for any vehicle, which is not used for defence, internal security or administrative purposes, shall be furnished only against the surrender to a supplier at the time of supply of valid ordinary coupons, or supplementary coupons, and in accordance with printed instructions.

(2) **Motor vehicles (kerosene Prohibition) Order, 1942.** No person shall use in a motor vehicle (other than a tractor) for supplying motive power thereto, or sell for such use, any petroleum not being dangerous petroleum having its flashing point below 150°F either alone or admixed in any proportion with any other petroleum or other substance.

(3) **Coloured motor spirit Control Order, 1942.** Prohibits production, buying, selling, storing or transport of coloured motor spirit except by a permit.

(4) **Fuel Alcohol Order, 1943.** This Order (1) lays down conditions of sale of petrol, (2) prohibits the use of petrol without admixture of fuel alcohol, except in special cases and (3) lays down conditions of manufacture and sale of fuel alcohol and of molasses.

(5) **Tyre Rationing Order, 1942.** New motor tyres and tubes and re-treated tyres shall be supplied or acquired only against the surrender to the supplier of a valid permit.

(6) **Motor Vehicle Spare Parts Control Order, 1943.** The Provincial Motor Transport Controller may appoint approved sub-dealers in spare parts of motor vehicles. Registered dealers and approved sub-dealers shall sell controlled spare parts distributed by the scheduled distributor at notified prices.

17. Paper.

(1) **Newspaper Control Order, 1942.** The total number of pages in all the issues of a daily newspaper published during a week shall not exceed the quota assigned in Schedule I to a newspaper of that class and price.

On or after the 1st March, 1943, no person shall print, make or publish on the same day more than one edition of any daily newspaper for circulation in the same locality except with the permission of the Central Government previously obtained.

The total number of pages in all the issues of a weekly or fortnightly newspaper published during any period of four weeks shall not exceed the quota assigned in Schedule III to a newspaper of that class and price.

The price of a newspaper for the purposes of clauses 5, 6, and 7 shall, in the following cases, be deemed respectively to be:

Where different issues of the newspaper are sold at different prices, the lowest price at which any normal issue of the newspaper is sold.

(2) **Newsprint Control Order, 1941.** No person shall sell, or otherwise dispose of, newsprint to the proprietor of a newspaper except to the extent to which such proprietor is authorised to purchase or acquire newsprint under the provisions of this clause.

No proprietor of a newspaper shall, after the 10th April, 1943, purchase or otherwise acquire newsprint from any person in India except under and in accordance with the

conditions of a permit issued to such proprietor after the 31st March, 1943.

No proprietor of a newspaper shall, during any period after the 10th April, 1943, use newsprint in exess of the quantity which he is authorised to use during that period under a permit issued to him in this behalf.

(3) **Paper Control Order, 1942.** No person shall :

(*a*) print or make or publish, except under the authority in writing of the Central Government, any newspaper, news bulletin, magazine or periodical that was not both printed or made in British India and regularly published therein during the period immediately preceding the coming into force of this Order;

(*b*) publish any newspaper, news bulletin, magazine or periodical :—

(*i*) which, before the coming into force of this Order, was being published at regular intervals, at more frequent intervals than those intervals, or

(*ii*) which, before the coming into force of this Order, was not being published at regular intervals, more frequently than once in any calendar month ;

(*c*) use or consume in printing, making or publishing any newspaper, news bulletin, magazine or periodical, a larger quantity of paper than may be prescribed by the Central Government either by general or special direction for use or consumption in printing, making or publishing such newspaper, news bulletin, magazine or periodical.

(4) **Paper (Packing of Cotton Textiles). Control Order, 1943.** (1) Except as provided in sub-clause (2), no manufacturer of, and no dealer in, cotton or yarn shall use paper or straw-boards for the packing of cotton cloth or yarn.

(2) Paper may be used for the packing of :—

(*a*) unbleached cotton cloth not coarser than 60s warp or weft, or bleached or dyed cotton cloth, provided that not less than five pieces of such cloth are packed together ;

(*b*) Bleached yarn.

No manufacturer shall attach or cause to be attached any label to cotton cloth, and no person shall make any label for such use.

18. Paper Control (Economy) Order, June 1944. This order proposes to reduce the consumption of paper by as much as 70 per cent. There are certain exemptions.

It is stated that a system of indirect rationing has become absolutely necessary as Indian production of paper has fallen heavily owing to shortage of fuel, transport and raw material.

The production of paper in India rose from 60,000 tons yearly to the peak figure of 109,000 tons during the war. It is now about 70,000 tons. The Government are therefore compelled to enforce frugal use of what is available.

The proposed reduction of consumption is not to be applied indiscriminately. Bank cheque books are not affected by the cut. Text-books for educational institutions will be subjected to a cut of 50 per cent instead of 70 per cent. (Fewer and thinner text books would be a distinct gain from the educational point of view.) Certain important weekly journals may be granted relief. But there will be little paper for, *e.g.*, a zamindar in the Punjab who would like to print a booklet of testimonials given to him and to his ancestors by the Viceroy or the Governor. This is a little hard on the Punjab Zamindars. Again, there will be little paper for the printing of statements by politicians. Our politicians might thus be induced to make fewer statements, which will be good for them as well as for the general public.

19. Rubber.

Rubber Manufactures Control Order, 1942. The Order prohibits the production of certain articles or component parts, and restricts the production of other articles or component parts made of rubber. The Controller of rubber manufactures grants licences to produce certain articles. Articles the production of which is prohibited include household requisites, clothing, sundries, rubber-proofed materials, sports goods (toys etc.) and crepe sole. Articles the production of which is restricted include sports goods (hockey balls, football bladders etc), miscellaneous articles (*e.g.* air cushions, ice caps etc.), footwear, sheetings, hose, belting and tyre and tube materials.

(*F*) Significance of Economic Controls.

The foregoing account of economic controls is not meant to be exhaustive. It could not be exhaustive for almost each day brings new measures of control, but the controls mentioned sufficiently indicate the difference between our pre-war and war economy.

How shall we characterise the economic system brought into being for war purposes ?

Is it capitalism ? Definitely no. Capitalism is founded on free competition, the individuals's right to invest his capital as he pleases, liberty to speculate, and liberty to make profits. At present prices are not determined by free competition ; nothing can be exported or imported without Government permission ; Government may regulate the production, distribution and consumption of any article of any description whatsoever ; Government may take charge of any undertaking, or force it to work according to their instructions ; rationing of food and certain metals and other materials is in force ; speculation in important commodities has ceased ; the 'profit motive' has disappeared and production is for purposes determined by Government.

Our present economic system is the complete negation of capitalism. The freedom of the individual in buying and selling, production and distribution, exchange and consumption is at an end. Such 'sovereignty' as the consumer enjoyed is gone. The Government is virtually a dictator, and it has armed itself with vast powers to enforce its will.

Could we describe our present system as socialism ? No. Under socialism land and capital are publicly, not privately owned. While Government have the power to take over any undertaking whatsoever, in fact private property in instruments of production continues. But the owners of instruments of production are under control. Government may order any landowner to grow more food instead of a commercial crop ; Government may order any manufacturer to produce specified quantities of specified products.

State-Controlled Capitalism in War. Our present system may be correctly described as State-controlled capitalism. The use of capital is regulated by Government.

Why ?

Because it is necessary to divert the country's resources in men and material to war purposes.

The present system has evolved slowly. Mistakes have been made, for which the country has paid dearly. But the system can be improved and further developed. With the administrative machine running smoothly, more and more resources may be used for war purposes up to a certain limit. This limit is determined by the minimum reasonable require-

ments of the civil population. Since Government pay for what they buy, the amount of money in circulation must increase. But the increased purchasing power of the people can be impounded. The rise of prices can be prevented by Government control and distribution of supplies, or by rationing at fixed prices.

State-Controlled Capitalism in Peace. The diversion of men and material to war purposes which State-controlled capitalism has effected is unproductive. But the same system of economic controls may be used in times of peace for productive purposes, or to build up the industrial system and to lay the foundations of future economic prosperity. Suppose we wish to industrialise our country. That means the creation of basic industries, the most important of which is the making of machines. We have seen that when the supply of consumers' goods is increased with imported machines, while employment is created in the country that makes them, there will be unemployment in the country importing them.* If we want to expand our industrial output, we must learn to make machines, and also develop other basic industries. This would involve a diversion of resources from other uses to capital construction, and it would have to be effected, as in a time of war, largely with money created by Government. Given a system of thorough-going State-control of production, distribution, exchange and consumption, we may industrialise India within a short period of 15 years, or within a generation.

Our war economy is a planned economy, and in a planned economy, as we have seen, there is no room for unrestricted freedom of enterprise. If we can plan for war, on the basis of State control, not State ownership, of means of production, we can still more easily plan for peace under the same conditions. There can be no planning under capitalism, that is, with freedom of enterprise. But abolish freedom of enterprise, institute State-control, and you can plan. State-ownership of means of production is not essential to planning. This is not a conclusion reached theoretically but based on what we have ourselves actually seen and experienced.

* Vol. I, Pp. 80—82.

PART III

POST-WAR PLANNING

CHAPTER VII

RECONSTRUCTION PLANS: U.S.A. UNITED KINGDOM AND INDIA

In the following pages we shall deal with India's post-war economic problems and their solution. We may equip ourselves for this study with some knowledge of schemes of post-war reconstruction in the two leading countries, the United States of America and the United Kingdom. These are the two richest, as we are one of the poorest countries in the world. Their plans of social security only excite our envy. Even so, a knowledge of the main features of the British and the American plan will be useful in providing us with an ultimate objective, however unrealisable such an objective may seem under existing conditions.

(*A*) U.S.A.

The Report on 'A Post-War Plan and Program for the United States of America' was issued by the National Resources Planning Board of U.S.A. in 1943. Among other things the Report outlines plans for transition from war to peace, for the development of an expanding economy, and for the development of social services and security.

1. The Demobilization Problem.

This has two aspects, demobilization of men from the armed forces and war industries, and second, demoilization of war plants and machines.

The demobilization of the armed forces is being most carefully planned. Committees set up in various localities will co-operate in replacing all persons in the armed forces released from service. Potential employment demands in the post-war period are being studied.

The Report says: "We shall not be content this time to give each man 60 dollars in cash and a ticket home. Every reasonable provision will have to be made to insure that these young men shall be enabled to take up their places in civilian life with only the inevitable loss of time which their service will entail."* To prepare men, after their release from military service, to assume jobs in industry, it will be necessary to adapt and retain programmes of education and re-education both in vocational schools and in industry.

Dembobilization of war plants and machines. (*i*) There is to be orderly conversion to civilian use of unneeded war production facilities. Government-owned plants will be disposed of to private operators who can convert them to peace-time use. To prevent monopoly control, plants will be distributed among numerous operators to encourage healthful business competition.

(*ii*) New industries, new processes and improved products are to be developed by research work within the Government and State-subsidized private research.

2. Development of an expanding economy.

Private enterprise is to be encouraged. Measures are to be taken to stimulate private initiative and resourcefulness of management and to open the channels of investment opportunity, large and small, and secondly, to prevent the abuse of economic power or monopolistic privilege.

The war production programme had led to the concentration of contracts in large concerns. At the end of the war, if not before, Government is to arrange for the operation of many plants by new producers, *i.e.*, monopolistic control is to be avoided. Large business units will be restricted to fields in which the economic advantages of large-scale operations are unquestioned. Small business units will be assisted wherever they are economically efficient, The assistance wlll take the form of technical engineering advice, accesss to materials, favourable terms for financing and marketing aids.

3. Mixed Corporations with Joint Private and Government participation.

Prominent examples of mixed co-operation, are the South African Iron and Steel Corporations British Imperial Airways and the Anglo-American Oil Company.

* P, 12 British Official Reprint, 1943.

Mixed corporations are recommended in the Report in those basic industries in which the U. S. Government has made large war-time investments. Examples are aluminium, magnesium, other basic metals, synthetic rubber, certain chemicals, ship-building and aircraft. Other fields for the activities of joint corporations are urban development, housing, air transport, communications and electric power.

4. Social security and services.

The National Resources Planning Board believes that it should be the declared policy of the U. S. Government:

To underwrite full employment for the employables;

To guarantee a job for every man released from the armed forces and the war industries at the close of the war, with fair pay and working conditions;

To guarantee and, when necessary, to underwrite;

Equal access to security;

Equal access to education for all;

Equal access to health and nutrition for all;

Wholesome housing conditions for all."

Social security and public aid programmes are to be strengthened and improved. The reasons are two, At any given time the objective of full employment may not be ensured, and second, even full employment may not entirely eliminate the need for socially provided income or State aid. " The old, the very young and the sick and disabled must be assured of basic income even though they are unable to earn."*

(*B*) The Beveridge Report

The famous Beveridge Report discusses social insurance and allied services in the United Kingdom.

5. Want in Great Britain.

Between 1928 and 1937 social surveys of conditions of life in certain British towns were made by impartial scientific authorities with the object of determining the proportion of the people in each town whose means were below the standard assumed to be necessary for subsistence. The surveys revealed the existence of want. The greater proportion of want was due to interruption or loss of earning power

*Ibid, P. 95.

and the remainder to insufficient family income. The abolition of want thus requires a double re-distribution of income, through social insurance and by family needs.

All the principal causes of interruption or loss of earnings are already covered by social insurance in Britain. It is necessary to extend the scope of social insurance and to raise the rates of benefits.

To adjust income to family needs allowances for children are required.

6. How to abolish want.

The aim of the Beveridge Report is to abolish want after the war. The principal method recommended is compulsory social insurance, with national assistance and voluntary insurance as subsidiary methods. The Plan assumes allowances for children, and also establishment of comprehensive health and rehabilitation services and maintenance of employment, *i.e.*, avoidance of mass unemployment.

The Report analyses and meets eight principal causes of need :

1. Unemployment of those who are physically fit—met by employment benefit with removal and lodging grants.

2. Disability to pursue a gainful occupation through illness or accident—met by disability benefit and industrial pension.

3. Loss of livelihood by person not dependent on paid employment—met by training benefit.

4. Retirement from occupation, paid or unpaid, through age—met by retirement pension.

5. Marriage needs of women—met by (*a*) marriage grant, (*b*) maternity grant, (*c*) share of benefit or pension with husband (in case of interruption or cessation of husband's earnings), (*d*) provision for widowhood, (*e*) separation and other benefits, (*f*) paid help in illness as part of treatment.

6. Childhood—provided for by children's allowances, if in full time education, till sixteen.

7. Physical disease or incapacity—met by medical treatment, both in the home and public institutions.

8. Funeral expenses—met by funeral grant.

Children's allowances are to be non-contributory, provided wholly out of taxation.

The case for children's allowances has been ably argued in the Report. Apart from the need for stimulating the birth rate, a national minimum for families of every size cannot be secured under the wage-system, since the rate of wages is determined by the product of a man's labour and not by the size of his family. The social surveys of Britain have shown that during the past 30 years of the present century real wages rose by about one-third, but want remained. As a part of the revealed want was due to large families, the cost of maintaining children should be shared between their parents and the community.

7. Estimated Cost..

The estimated social security expenditure is £697,000,000 (929 crore Rs. at 18*d* per rupee) for 1945 and £858,000,000 (1144 crores) for 1965. The magnitude of these figures will be realised when it is remembered that the revenue of the Indian Government (Centre) in 1938-39 amounted to 121 crores and of provincial Governments, to 85 crores, or a total of 206 crores. The cost to public fuuds will be £351 millions in 1945 and £519 millions in 1965.

Social security plans of the United Kingdom and the United States make one gasp.

(C) Post-War Economic Reconstruction. A Report by the Federation of British Industries.

Will Britain be able to shoulder social security expenditure gradually rising to about £1,000,000,000 in post-war years ? Doubts easily arise.

What will be Britain's economic position at the end of the war ? A none too cheerful view is taken in the Report by the Federation of British Industries.

Before the war the United Kingdom was a heavy importer of foodstuffs and raw materials. She paid for these imports by the export of goods, by the export of capital, by interest on past investments and by services. The Report says :

"After the war we shall not be in the same favourable position as in the past. Instead of being a creditor, we shall be a debtor nation to an unknown extent, in view of the implications of 'lease-lend'. As already stated, a large part of our overseas assets will have been hypothecated, and in certain cases destroyed. Our ability to render services may, for the

time being, have been reduced. The stability of our currency and foreign exchange situation will be in danger".[1]

Ignoring the far too ambitious plans of social security, how will Britain reconstruct her national economy in order to maintain the high pre-war standard of living of her people ?

The Report deals with national as well as international aspects of this question.

8. The Home Market.

As for the home market, Britain is threatened with a decline in population. "Indeed, we must look forward to a decrease numerically of the purchasing power represented by our home market." Secondly, the average age of the population is increasing, and the proportion of persons in the higher age-groups to the total is rising. This means an alteration in demand, and that the active members of the population will be comparatively fewer than in the past. A third and more serious point is that 'industry proper was ceasing to provide the main expanding channel for the employment of new additions to the population.[2]'

The Federation of British Industries (F. B. I.) apprehend that the end of the war will be the beginning of 'a period of contracting industrial capacity' for the country as a whole. The financing of industry will be difficult unless industry is permitted to build up adequate reserves for post-war reconstruction in war-time. A plan of orderly demobilization will have to be devised, and in the immediate post-war period a measure of Government control over industry must be retained, but what will be the nature of Government relations with industry when the period of transition is over ? F. B. I. dislike unnecessary Government control :

"The dangers of control for the sake of control, of the enthronement of a vast bureaucracy totally unsuited to deal with business problems, of the stifling of incentive for individual effort and of private enterprise, which are the keystones of business efficiency, must at all costs be avoided.[3]"

F. B. I. like the National Resources Planning Board of U. S. A., are upholders of private enterprise, not socialization.

Importance of the Home Market. F. B. I. would seek to preserve the home market for British industries, ; "Industry

[1]**Reconstruction (Macmillan), P. 7.**
[2]**P. 16.**
[3]***Ibid* P. 20**

has a lively recollection of the effects of unrestricted, and often uneconomic competition in the home market by overseas industries before a reasonable measure of protection was granted to home producers. The future may hold just as great and possibly greater dangers."*

This means the restriction of imports by tariffs and other means.

9. Quantitative Trade Controls.

Both to secure the home market to British producers and to safeguard the British foreign exchange and currency position, F. B. I. favour a policy of 'directive' imports. Imports of essential commodities are to be permitted from such overseas countries only as will be willing to accept payment in the form of British goods and services.

"In effect almost a system of barter, or at any rate a system of bilateral trade which will regulate our imports by our capacity to pay for them. This involves import and export controls, possibly by quota, preferential treatment of the imports of those countries which are prepared to assure us of the means of paying for them, and exchange control. Otherwise our economic stability crashes, owing to our importing beyond our ability to pay, which is the road to national bankruptcy."†

The language is emphatic and the meaning is unmistakably clear.

The Report from which the above passage is taken was submitted to the 182 Trade Associations which are the constituent bodies of F. B. I. and which cover all the chief British industries, as well as to the Grand Council of F. B. I. It was unanimously adopted by the Grand Council in April, 1942. The Report thus represents the considered views of British industrialists on post-war reconstruction in Britain. Nothing has happened since April, 1942 which may have changed these views.

10. Quantitative Trade Controls. Their Causes and Nature.

There is an interesting report bearing this title which was issued by the League of Nations in 1943. A brief study of the causes and nature of trade controls will be helpful in understanding the demand of F. B. I. for quantitative control

* P. 28.
† P. 8.

of imports and exports in post-war Britain, involving discrimination.

The demand is inconsistent with the declaration by the Governments of the United Nations, under the Mutual Aid Agreements, of their intention to direct their post-war policies towards 'the elimination of all forms of discriminatory treatment in international commerce' and 'the reduction of tariffs and other trade barriers'. In the American Currency Plan (which has been replaced by the International Monetary Fund) two of the purposes of the proposed United and Associated Nations Stabilization Fund were thus defined :—

"5. To reduce the use of foreign exchange controls that interfere with world trade and the international flow of productive capital.

"6. To help eliminate bilateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices".

F. B. I. are aware that the members of the U.S.A. Government and responsible leaders of industrial thought in U. S. A. envisage a post-war world without trade barriers, inter-Imperial preferences, exchange controls and directive systems of exports and imports. Goods are to be freely exported and imported, irrespective of how the balance of account can be met. "But", says the report of F. B. I., "for this country the problem of financing our imports, so necessary for a small, highly industrialised country such as the United Kingdom, is not a matter of economic theory but one of economic life or death."* Caustic but sincere comment.

Quantitative trade controls were an integral part of war economies between 1914 and 1918. Their removal, on account of their hampering effect on international trade, was recommended by the Supreme Economic Council and the Brussels Conference (1920) and the Genoa Conference (1922). In 1927, 29 States concluded an agreement the main purport of which was the following :—

The parties undertook, subject to certain exceptions, allowed in each case, to 'abolish within a period of six months, all import and export prohibitions and restrictions and not thereafter to impose any such prohibitions or restrictions.'

* P. 8.

For a very short period there was relaxation of quantitative trade controls, but the movement was arrested by the agricultural depression of 1929. The 'fateful year', 1931, saw the re-imposition of quotas and the re-introduction of licensing and prohibition in several countries. At the end of 1932 no less than 11 countries of Europe had a full-fledged quota system in force. Quotas became an accepted instrument of commercial policy, a means of protection and an integral part of recovery programmes. India has made use of quotas to restrict imports of cotton piece-goods from Japan. In 1937 the percentage of total value of imports subject to quotas varied from 8 in the United Kingdom to 58 in France.

11. Quotas *versus* Tariffs.

A quota rigidly fixes imports in the upper direction. For example, Japan was not permitted to send us more than 400 million yards of cotton piece-goods. A tariff imposes no limit on the quantity of imports—it is not a measure of quantitative control. Even if the rate of the tariff is high, imports may subsequently tend to increase for any of the following reasons: fall in cost and price abroad; rise in cost and price at home; an export premium granted by a foreign Government; reduction in sea-freights; or rise in national income at home so that the burden of the duty is felt less heavily.

It follows that home producers feel more secure under a quota than under a tariff. If the quota is smaller than the quantity which was imported under the tariff, the price of the commodity concerned will rise in the importing country, which increases the profit of home producers (other things being equal). Behind the quota system monopolistic organisations of producers can operate with greater security than behind a tariff. A quota system is the mother of trusts in a more real sense than a tariff. A good example is provided by Switzerland.

Four main causes account for the revival of quantitative trade controls after 1929.

(*a*) Heavy and continued fall of agricultural prices. This led agricultural countries to offer cereals to importing countries at prices which neutralised non-quantitative (tariff) measures of regulation. The demand for food is relatively inelastic, and even a small increase in imports caused a heavy fall in price, thus increasing distress among farmers in the importing countries of Europe.

(*b*) To safeguard the currency position or to defend the exchange parity.

(*c*) To create employment and generally to assist recovery.

(*d*) After 1935, when the danger of war in the near future became apparent, the strict regulation of foreign trade by quantitative controls became a part of the drive towards greater self-sufficiency and the preparation for war.

12. The Future.

Would the end of the war remove the need for quantitative controls? This is possible only in the realm of Utopia. In the absence of a communist Government of the world from a single centre (Washington ?), every country would depend largely on its own resources to rebuild its national economy. And it must employ such measures, including exchange and quantitative trade controls, as appear to it most suitable to maintain employment, to increase production and to raise the national standard of living.

(*D*) Post-War India.

What is the nature of our post-war problems?

There are no special problems created by the war which require a solution. All our major problems are pre-war problems. Only our experiences during the war have shown the urgency of these problems, and brought home to us the dangers involved in delaying a solution.

Demobilization will present little difficulty. The Indian army is largely drawn from the peasant class. When the war ends, the peasant warrior will receive a few rupees and a ticket home. He will go back to his plough. There is heavy pressure of population on the soil, but this is not a new problem, and the war has nothing to do with it.

It is possible that some of the educated Indians who have joined the armed forces may continue in military service. Others will be given preference for purposes of Government service on account of 'war services'. Many of those temporarily employed in various Government departments connected with the war will lose their jobs. There will be educated unemployment. This, again, is not a new problem. The war temporarily ended educated unemployment; at the end of the war the pre-war position will be restored.

At the close of the war, as we have seen, the United States and the United Kingdom propose to carry out very compre-

hensive social security programmes. In India, more than 2000 years ago, according to Kautilya, it was the duty of the King to provide orphans, the aged, the infirm and the afflicted with maintenance; he was also to provide subsistence to *helpless* women when they were carrying and to the children they gave birth to. At present our State recognizes no such obligations. For centuries the masses of India have known no economic security; they must get along without it for many more years.

13. Review of pre-war problems.

Our study of pre-war economic conditions and of the impact of war on our economy should help in a better understanding of the problems confronting us.

Industrial deficiencies. India cannot defend herself. A modern war is a war of machines. To defend her independence or swaraj, whenever it may come, industrialisation of India is essential. No one in his senses can maintain that foreign aggression can be checked by non-violent means.

In a war of machines, for one soldier in the field ten work in factories producing war material of all kinds. The industrial weakness of India was revealed when, soon after the outbreak of the war, large amounts of equipment had to be imported from the United States and the United Kingdom. The lack of technicians had to be made good by importing foreign experts, and by taking special steps to train Indian personnel both in India and abroad.

It would be dangerous to assume that the present war will end war for all time. Apart from other considerations, India must industrialise for reasons of national defence.

Agriculture. The war has revealed the precariousness of our food position. *It is hoped that the lessons of the Bengal* famine will never be forgotten.

At the end of the war an attempt must be made to make India self-sufficient in the matter of food. The spectacle of a predominantly agricultural country importing food is ridiculous. It is possible to grow more food by extending the area under food-grains, and there is very great scope for increasing yields per acre.

Indian agriculture must be so improved that it properly feeds our population and supplies adequate quantities of raw materials for industries. This is the problem of Indian agri-

culture viewed from the standpoint of production. This is not a problem difficult of solution.

A more important problem, which would not be easy to tackle, is that of stabilizing agricultural prices at a remunerative level. This is the problem of Indian agriculture viewed simultaneously from two points of view, that of the agriculturist as a human being, and that of industrialisation.

We have seen that the fall of agricultural prices after 1931 made agriculture unremunerative over large parts of the country. We have seen that much of the gold that India exported between 1931-32 and 1939-40 was 'distress gold', sold by peasants to meet Government dues and other obligations. We have seen that the fall of agricultural prices was due to revolutionary changes in methods of agricultural production in overseas countries—biological progress has increased yields and mechanical progress has reduced costs of production. These changes are of a permanent nature, but their significance for Indian agriculture and the Indian agriculturist is not yet fully realised in our country.

Explaining the Bombay Plan (which will be discussed later) at the annual meeting of the Federation of India Chambers of Commerce and Industry on March 4, 1944, Mr. G. D. Birla said:

"From 1900 to 1930 India has maintained a surplus in foreign trade to the tune of anything between Rs. 30 to 40 crores worth of goods every year, and has also imported gold and silver of several crores a year."*

Mr. G. D. Birla is one of the authors of the Bombay Plan. In the Bombay Plan the balance of trade is expected to provide Rs. 600 crores over a period of 15 years, or Rs. 40 crores, per year. Actually the balance of trade may provide nothing at all, or a negligible amount.

Between 1900 and 1930 Indian agriculture was prosperous and the terms of trade were, on the whole, favourable to us. The Great Depression completely turned the tables on us. The terms of trade have moved against India, and for good. What are our reasons for thinking so?

While agricultural progress will continue in other countries, modernisation of Indian agriculture, which may bring down agricultural costs, is difficult. It should not be forgotten that

* '*The Plan Explained*' by G. D. Birla, p. 6.

Indian agriculture, for the most part, is subsistence farming. The possibilities of large-scale farming on a co-operative basis need investigation, but a complete transformation of Indian agriculture through collectivisation is unthinkable. For long years to come Indian agriculture cannot be so organised as to successfully meet overseas competition.

Referring to the effects of the Agricultural Revolution on German agriculture, a German writer says :*

"The development of wholly new methods and technique in agriculture in overseas countries, which has led to colonisation of regions of virgin and fertile soil, and the cheapening of transport as the result of improvement in transport technique, have exposed German agriculture to a competition never before experienced in the same degree. If the law of comparative costs were allowed free play then the fate of German peasants would indeed be sealed."

German agriculture is far more advanced in its methods than Indian agriculture can hope to be during the next fifty years. If German peasants could not meet overseas competition, and had to be protected against the operation of the law of comparative costs, it is impossible to expect that our subsistence farming will successfully survive the operation of the same law.

To maintain prices at a remunerative level it will be necessary to protect Indian agriculture from the action of competitive world prices. The only means of doing so is by freeing India from the world market. Once we have broken loose from world economy, we can maintain agricultural prices at any level we choose. This level should be so determined as to enable the peasant to maintain a reasonable standard of living.

Purchasing power for industrial products. No industrialisation on a really big scale is possible unless steps are simultaneously taken to increase the purchasing power of the rural masses. Indian manufacturing industries cannot depend on foreign markets for continued prosperity. There are net exports of cotton goods at the present time, but it is not unlikely that net exports will be turned into net imports soon after the close of the war.

* *Grundfragen deutscher Wirtschaftspolitik*, by Dr. Paul Hoevel, (Berlin, 1935), p. 90.

But scope for increase in the home demand for manufactured goods is almost unlimited, provided the purchasing power of the people increases. It is seen that the pace of industrialisation in India will be determined by the success of measures taken to stabilize agricultural prices at a remunerative level.

The agricultural problem is not a new problem. The forces which have brought it into being began to operate with the Great Depression.

International Commodity Control. The Memorandum on the British Currency Plan says:

"The Union might set up an account in favour of international bodies charged with the management of a Commodity Control, and might finance stocks of commodities held by such bodies, allowing them overdraft facilities on their accounts up to an agreed maximum. By this means the financial problem of buffer stocks and 'ever normal granaries' could be effectively attacked."

The Clearing Union might or might not have done all that. The International Monetary Fund is not concerned with such objects. International Commodity Control might or might not materialise at the end of the war. If it does, the stabilization prices might or might not suit us. Considering the vital importance of stable and remumerative prices, both from the point of view of the Indian agriculturist and industrialisation, India must act independently, irrespective of all schemes of a new 'world order' and international planning.

The Population Problem. This is also an old problem. We have seen that the only real solution is controlled production of human beings. Propaganda in favour of birth control might achieve some result, but not without a change in the religious outlook of the masses and their leaders, Post-war India might see the rise of a new leadership. That our present leaders will shed their antediluvian outlook is impossible to expect.

A rise in the standard of living, as has been seen in European countries, lowers the birth rate. But such a rise in the standard of living in India will take long in coming.

Educated Unemployment. The *International Labour Year Book*, 1939-40, says:

"Educational re-organisation is urged, particularly in Egypt and in India. In addition a Committee was set-up-in Egypt

to provide for the placing of unemployed professional workers in suitable employment. In India the Government of Bombay established a workshop school at Ahmedabad and elsewhere measures were adopted for the extension of University employment bureaux and for the promotion of agricultural settlements."*

Educational re-organisation has been constantly urged in India since the appointment of the first unemployment committee in Bengal in 1922, but it has not been carried out in any part of the country. University employment bureaux, where they exist, possibly help in finding jobs, but they cannot create jobs. Agricultural settlements are of no importance whatsoever.

There is need for adapting education to the economic requirements of the country. Higher literary education in a poor country is a luxury and a waste.

Foreign Trade. We are in the unhappy position of a country which cannot do without imports, but finds the markets for its exports shrinking. Gold exports, as we have seen†, kept us solvent before the war, but since they cannot continue indefinitely, post-war India will have to devise means of lessening our dependence on foreign countries. Failure to do so means bankruptcy.

The days of unrestricted imports are gone for ever. We must learn to do without imported luxuries and comforts. Apart from imports of technical equipment, all other imports will have to be carefully watched and controlled; essential goods will be purchased only from such countries as are willing to receive payment in goods. Extended use will have to be made of the tariff, and also of quotas and exchange control, for the regulation of imports.

Currency. The currency policy of the Government of India has been guided by two chief considerations, a stable rate, and as high a rate as possible. One may recall the attempt made in 1920 to stabilize exchange at the equivalent of 2s. gold. In 1927 exchange was actually stabilized at a level $12\frac{1}{2}$ per cent higher than the rate prevailing before the Great War. If Britain made a mistake in returning to the gold standard in 1925 at the old rate of £ = 4·866 dollars, we did

* P. 218. † Vol. I, p. 170.

not act more wisely in choosing a parity higher than the old parity.

The repatriation of sterling debt has weakened the case for a high exchange rate. A lower exchange value of the rupee would not please British manufacturers, but the time has come when India's currency policy must be determined solely by considerations of India's good. So far we never had an independent currency policy.

Agricultural and Industrial Finance. We have seen that, considering the progress of the co-operative movement since its inauguration, it cannot be expected to solve the problem of rural finance within a reasonable period of time. The trend of co-operation is not encouraging. Having wasted much time, money and effort in the attempt to destroy a deep-rooted indigenous system, we may now try to re-organise and improve it.

Industrialisation is impossible without the creation of special financing institutions, or industrial banks, and, unless the financing of India's foreign trade is to continue in foreign hands for ever and ever, post-war India may see the establishment of an Indian Exchange bank on the lines recommended by the Indian Banking Enquiry Committee of 1928.

Finally, a money market with un-co-ordinated parts cannot function as one organism, and the mechanism of central banking under such conditions has no utility except as an ornament.

Taxation. Great changes are needed in the system of rural taxation. The land revenue is an old tax, but old conditions have passed away. A new class of non-working landlords has arisen who claim a share in the produce of the soil several times greater than the share accruing to the State. The burden of the land revenue rests lightly on the non-worker but falls heavily on the worker. Is this just?

We have seen that 'net assets' are differently interpreted in different parts of the country. Where they are taken to mean landlords' net assets, the working peasant is taxed at a rate which completely ignores his expenses of production. Is this fair?

We have seen that post-war India must maintain agricultural prices at a remunerative level. The object is to promote the well-being of the working peasant and to increase

his purchasing power. The pursuit of the same object demands (*a*) re-adjustment of tax-burdens as between the worker and the non-worker, and (*b*) substantial improvement in the conditions of tenancy, particularly in provinces like the Punjab where tenants are exposed to merciless exploitation by landlords.

14. The Bombay Plan.

The foregoing review of Indian economic problems awaiting solution shows their wide range and complexity.

Sometime ago a National Planning Committee was appointed by the Indian National Congress. The Committee started work on a very comprehensive scale, but political developments in the country prematurely ended its labours.

As a basis for the discussion of post-war reconstruction we may take 'A Plan of Economic Development for India' which has attracted a great deal of attention in India and abroad. The Plan is the work of eight leading industrialists, all Bombay men, with one exception. We may call it the Bombay Plan. A clearly written memorandum has been issued by the joint authors explaining the Plan.

The object of the Plan is to double the present *per capita* income within a period of 15 years. To achieve this result the net output of agriculture is to be somewhat more than doubled, and that of industry increased approximately five times. The total capital required to carry out the Plan is estimated as shown below:

		Crore Rs.
Industry	...	4,480
Agriculture	..	1,240
Communications	..	940
Education	...	490
Health	...	450
Housing	...	2,200
Miscellaneous	...	200
Total	...	10,000

The details of capital requirement for agriculture are the following :

		In crore rupees Non-recurring expenditure	Recurring expenditure
Soil conservation etc.	...	200	10
Working capital	...	...	250
Irrigation : Canals	...	400	10
Wells	...	50	...
Model farms	...	195	130
Total	...	845	400

Communications include railways, roads (new construction and re-construction) and ports.

The capital requirements for industries are estimated on the basis of net industrial output which will be attained 15 years after the Plan has come into operation (2,240 crores). The ratio of capital (including land and buildings) to net production is taken as 2·4. Thus the total capital required to produce a net output of Rs. 2,240 crores is $2{\cdot}4 \times 2{,}240 = 4{,}280$ crores.

Both large and small-scale industries are to be developed. But the Plan lays emphasis on the basic industries, *e.g.*, power (electricity); mining and metallurgy (iron and steel, aluminium, manganese, etc.); chemicals (heavy chemicals, fertilizers, dyes, plastics, pharmaceuticals etc.); armaments; transport (railway engines and wagons, ships, aircraft and automobiles); and cement.

The basic industries are to be developed as rapidly as possible. The consumption goods industries mentioned in the Plan are textiles (cotton, silk and wool), glass, leather, paper, tobacco and oil.

Adequate scope will be provided for cottage and small-scale industries: "This is important not merely as a means of affording employment but also of reducing the need for capital, particularly of external capital, in the early stages of the Plan".

The sources of finance are thus summarized :

		Crore Rs.	Crore Rs.
External finance	...		
Hoarded wealth	...	300	...
Sterling securities	...	1,000	...
Balance of trade	...	600	...
Foreign borrowing	...	700	2,600
Internal finance			
Savings	...	4,000	...
'Created money'	...	3,400	7,400
Total	...		10,000

Our hoarded wealth is estimated at about 1,000 crores. Of this not more than 300 crores may become available for the purposes of the Plan.

The sterling securities with the Reserve Bank at present amount to about 900 crore rupees. The amount, before the war ends, may well rise considerably above 1,000 crores. These securities could be utilised for importing some of the capital goods required for industrial development.

The Plan would raise national income. Assuming that 6 per cent of the national income becomes available for investment, savings would provide about 4,000 crores over the whole period.

'Created money' means money created against *ad hoc* securities, that is, against the Government's own I.O.U's.

Political Assumptions. The Plan assumes a National Government and a central directing authority. The regional grouping of provinces must not be allowed to impair the authority of the Government in important matters affecting economic development.

The Gap. The financing of economic development by means of 'created money' is likely to create a gap between the volume of purchasing power in the hands of the people and the volume of goods available. In other words, prices will tend to rise. "During this period, in order to prevent the inequitable distribution of the burden between different classes which this method of financing will involve, practically every aspect of economic life will have to be so rigorously controlled by Government that individual liberty and freedom will suffer a temporary eclipse."* The Memorandum adds tersely : "Planning without tears is almost an impossibility."

*P. 48.

Adequacy of Resources. Before the Plan is put into execution a thorough survey of our soils, water-power resources, geological wealth etc. will be necessary. But, probably, most of the raw materials required for the Plan would be available within the country. Till adequate supplies of trained labour become available, India will have to import technicians. Capital goods will have to be imported in the beginning. There is no lack of managerial ability in India.

15. Reception of the Plan.

The Bombay Plan is extremely modest in its aims as compared with the American and the British social security plans. *Per capita* income in India is the lowest in the world; a doubling of it would mean improvement but not such improvement as would make our standard of living comparable to that of most Western countries. Of social and economic security in the British or the American sense we cannot even dream.

The Bombay Plan is India's first attempt to think on constructive lines in the economic sphere (apart from *gur*, *charkha* and *khaddar*). The attempt deserved encouragement, but it has met with sweeping condemnation in the British press. The trustees of our welfare in India and England are angry. Motives are attributed to the authors of the Plan, who represent 'big business'. According to *The C. & M. Gazette*, Lahore, the political warp and woof of the Plan 'shows little or no trace of any desire to raise the standard of life of the teeming masses.' The war created opportunities for Indian capitalists which they have not been slow to take advantage of—they have made 'huge profits by the manufacture and sale of poor imitations of consumers' goods which in normal times were imported from abroad. That they have succeeded is a tribute to their opportunism, not their patriotism.' These opportunists are now seeking the perpetuation by artificial means of the same conditions. "To such men India is seen as a closed preserve for exploitation by themselves."*

The clear duty of the British Government in these circumstances is to save the Indian people from exploitation by their own kith and kin. The London *Economist* (which inspired the comments in the Lahore journal) says:

"The moment may have even come when English socialism and liberals, who so long demanded the end of Imperialism,

*Issue dated, May 18th, 1944.

may request its continuance in some form to save the Indian people from Indian exploitation."*

That request will be made. English liberals and socialists no longer demand the end of British Imperialism. The war has taught British labour to value the Empire.

There would be little objection, from the British point of view, to a plan of economic development based on agriculture and cottage industries. The London *Economist* seems to approve of the movement associated with Mahatma Gandhi's name:

"Mr. Gandhi foresaw the present situation long ago when he determinedly set his policy, not towards national strength and material wealth but towards national freedom in the old traditional and spiritual ways of poverty and good life".

Mahatma Gandhi's view of the Bombay Plan is not yet known.

16. Created Money.

'Created money' has furnished an easy target for criticism. The Plan is regarded with considerable misgiving in academic circles on account of the dangers of inflation associated with 'created money'. In the course of his budget speech in March, 1944, the Finance Member also confessed "to a feeling of misgiving regarding the extent to which the financing of post-war development could be based on 'created money'."

Proceeding further he said:

"In so far as development projects are concerned with capital investment, a time-gap will necessarily intervene in the interval between investment and final completion, during which time no addition to the national income in real terms will take place to offset the inflationary effect, and by the end of that time, prices will already have risen again. If development projects, such as education and public health, are to be financed in this way, the effect will be still more marked... I must say in justice to the authors of this proposal that they are aware of the dangers involved and propose to counter these effects by drastic over-all controls imposed by a strong central Government.

"This would mean that the public which has perforce to submit to control in war-time when the fact of shortage was inescapable, should accept the continuance of controls prolonged over a far longer period after peace returns...It

* London cable dated May 15th, see *The Tribune* of Lahore, dated May 16th, 1944.

would surely not be wise to force the pace of post-war development at the cost of imposing such severe limits on the standard of living during the development period, at the cost of further accentuating the disparities of wealth which inflation inevitably entails, or at the risk of a financial and economic collapse before the objective itself could be reached."

Tho Finance Member, certain sections of the Indian press and some leading Indian economists distrust unorthodox methods of finance. The Bombay Plan is 'reconstruction through inflation'.

11. The Politics of the Plan.

The Bombay Plan assumes, not State capitalism (as the London *Economist* supposes) but State-controlled capitalism. This aspect of the Plan does not please the advocates of 'freedom and democracy'. Apparently there is no objection to State-controlled capitalism for winning the war, for it is precisely this system which is functioning at present. But the improvement and perfection of the system for the economic development of the country is highly objectionable. It is totalitarianism.

America's New Deal was also condemned as Fascism. "Is the Recovery Plan", asks Fenner Brockway, "making towards Socialism, Fascism or something new ?...I think it is at once apparent how closely General Johnson's [Administrator of the National Industrial Recovery Act] conception of the Recovery Plan approximates to the Fascist economic structure of the Corporate State."*

An American observer said at the time :

"The industrial and business organisation thus far created bears more resemblance to the Italian corporate system than to what is commonly recognised as socialism, and it is that trend which seems likely, with Executive dictatorship as its essential support, to continue."†

We are not interested in the political or economic label that the Bombay Plan should carry. We are solely interested in the question : Will the Plan achieve what it promises ? Its objectives are praiseworthy. Can the Plan be implemented?

* *Will Roosevelt Succeed ?* by Fenner Brockway, 1934, Pp. 94-95 (Routledge).

† *The Menace of Recovery* by William MacDonold, 1934, p. 371 (Macmillan).

CHAPTER VIII

MEANING AND COST OF INDUSTRIALISATION

The Bombay Plan proposes to incease India's national income through industrialisation. What is the meaning of industrialization ?

1. Definition.

Sometime ago the Punjab Government invited Prof. K. T. Shah, who was secretary of the National Planning Committee appointed by the Indian National Congress, to prepare a plan for the industrialisation of the Punjab. In his report Prof. K. T. Shah says :

"Industrialisation is taken, in this connection, to mean the establishment, encouragement or development of large and small scale industries......". These industries are to be suitably organised, adequately financed and staffed and appropriately located.*

The industries that Prof. Shah has in view are those producing consumers' goods, industries with which the people are already familiar, and in which indigenous capital has already sought investment. The examples given by him are : the textile industry of cotton, wool and silk; leather industry, including boots and shoes, saddlery etc.; processing industries of several materials produced from agriculture or forestry.†

If all provinces were to be industrialised in this sense India would have almost no heavy industry !

Sir M. Visvesvarya puts in the forefront of his nation-building programme : "Establishment of heavy industries, specially those relating to the manufacture of machinery and heavy chemicals."‡

* *Report on Industrialization of the Punjab.* Pubushed by the Punjab Government (1941), p. 3.
† *Ibid.* p. 3.
‡ *Nation-building* by Sir M. Visvesvarya (Bangalore, 1937) p. 65

2. Result of Growth and Progress of Industry.

The progress of industry which is limited to consumers' goods, and ignores technical equipment or means of production, is not beneficial but harmful in the long run.

Our industrial output has considerably expanded since 1881, but the proportion of the population dependent on agriculture has risen, and of those dependent on industry has fallen. The industrialisation of India is proceeding side by side with the progressive ruralisation of India. This is the paradox of Indian 'industrialisation'.

India adopted discriminating protection as her tariff policy in 1924, but free trade had virtually been abandoned several years before, and Indian manufacturing industries benefited by the change. And yet, in spite of the growth and progress of Indian industry, the pressure of population on the soil, as we have seen, increased between 1921 and 1931 in every major province.

Population increased rapidly between 1931 and 1941. There is no reason whatever to doubt that pressure of population on the soil today is heavier than in 1931.

It should be clear that the progress of Indian industry under present conditions is not constructive but destructive.

Industrial development with imported machinery creates unemployment where the machines are used and employment where the machines were made.

3. Russian Experience.

Russian experience before planning was similar.

Tsarist Russia was an economically backward country, with agriculture as the main occupation of the people, but still it was industrially more advanced than India. Industrialised Germany, Russia's next-door neighbour, met Russia's requirements in regard to machines and other goods. Machines, metallic goods, metals and ores represented about half of the total value of German imports into Russia in 1913. After the Great War (1914-18) imports from Sweden and the United Kingdom largely replaced German imports.

The leaders of the Soviet Union saw very clearly that industrialisation was essential both in the interest of national defence and to raise the level of general economic well-being. How did they set about it ?

They paid less attention to consumers' goods, but concentrated all effort on the building of heavy industry. V. I. Mezhlauk, Chairman of the State Planning Commission of the U.S.S.R., reviewed the progress of machinery production in the course of a speech delivered at the second session of the Central Executive Committee of the U.S.S.R. on January 11th, 1936. "Machinery production, the principal key to the reconstruction of national economy," he said, "continues to exhibit the most rapid rates of increase."* The gross output of the machinery industry under the People's Commissariat of heavy industry was to total 16,600,000,000 roubles in 1936 as against 12,100,000,000 roubles in 1935. During the period of the First Five Year Plan Russia imported equipment to the value of approximately 2,000,000,000 gold roubles. During the Second Five Year Plan period equipment imports from abroad dropped 'to an insignificant figure'.†

4. Occupational changes.

The working population of a country may be divided into three large groups which, following Colin Clark, we may call Primary, Secondary and Tertiary. The Primary group includes workers engaged in hunting, fishing and agriculture; the Secondary, those engaged in mining and manufacture; and the Tertiary, also called 'Services', the rest (chiefly commerce, transport and Government and other services, including domestic service).‡

Industrialisation is accompanied by great occupational changes. There is a marked fall in the proportion of Primary workers and, in most cases, a marked rise in that of Tertiary workers. The proportion of workers engaged in Secondary occupations also rises, but this is of less significance.

Colin Clark has described the historical flow of labour to Tertiary production in many countries, illustrating what he calls Petty's law. Sir William Petty, writing in 1691, noted that Merchandise was more profitable than Manufacture, and Manufacture more profitable than Husbandry. The Hollanders were more prosperous than other nations but not because of any 'Excess of their Understandings'. The situa-

* *Soviet Union 1936* (London, Lawrence and Wishart), p. 340.

† *Ibid.* p 340.

‡ *The Conditions of Economic Progress* by Colin Clark (Macmillan) 1940. See Chapter V, and Table facing P. 178.

tion of their country made them a great sea-faring nation. Petty says :

"The Husbandman of England earns but about 4*s.* per week, but the Seamen have as good as 12*s.* in Wages, Victuals (and as it were Housing) with other Accommodations, so as a seaman is in Effect three Husbandmen ; wherefore there is little Ploughing and Sowing of Corn in Holland and Zealand or breeding of young Cattle..."*

Table VIII. 1.

	Average Real Income per head, 1925-34	*Primary.* Agriculture Forestry, Fishing. %.	*Secondary.* Mining, Building, Industry %.	*Tertiary.* Commerce, Transports and Service., %.
U. S. A. ...	1368	19·3	31·1	49·6
Canada ...	1337	34·5	23·2	42·3
New Zealand ...	1202	27·1	24·2	48·7
Great Britain ...	1069	6·4	43 9	49·7
Switzerland ...	1018	21·3	44·9	32·8
Argentine ...	1000†	22·6	43·0	34·4
Australia ...	980	24·4	29·4	46·2
Holland ...	855	20·8	39·2	40·0
Ireland ...	770	53·4	13·1	33·5
France ...	684	25·0	39·7	35·3
Denmark ...	680	35·7	27·5	36·8
Sweden ...	653	32·3	29·2	38·5
Germany ...	649	24·3	38·5	37·2
Spain ...	628	57·0	24·6	18·4
Belgium ...	600	17·1	47·8	35·1
Chile ..	550	37·9	27·9	34·2
Norway ...	539	35·3	26 5	38 2
Australia ...	592	24·5	38·6	36·9
Czechoslovakia ...	455	27·3	43·6	29·1
Greece ...	397	44·2	33 9	21·9
Finland ...	380	51·0	30·4	18·6
Hungary ...	359	54·1	24·8	21·8
Japan ...	353	50·3	19·5	30·2
Poland ...	352	61·6	18·0	20·3
Latvia ...	345	52·0	23·6	24·4
Italy ...	343	42·9	31·1	26·0
Estonia ...	341	51·6	24·3	24·1
U. S. S. R. ...	285	74·1	15·4	10·5
Bulgaria ...	284	67·3	17·4	15·3
Lithuania ...	207	64·5	15·0	20·5
India ...	110	62·4	14·4	23·2

Source : Colin Clark, p. 178. † Approximately.

* *Political Arithmetic*, 4th Ed, London, 1755, p. 112.

Petty's law, if indeed it may be so called, finds confirmation in the above table given by Colin Clark showing average real income per head and the percentage of Primary, Secondary and Tertiary workers in 31 countries. The most prosperous countries have also the highest proportion of Tertiary workers. These countries are: U. S. A. Canada, New Zealand, Great Britain, Switzerland, Argentine, Australia and Holland. Their range of per capita real income is from 855 (Holland) to 1368 units (U. S. A.). The proportion of Tertiary workers ranges from 32·8 per cent (Switzerland) to 49·6 per cent for the United States and 49·7 per cent for the United Kingdom. At the bottom of the scale we have poor countries with the great majority of their workers engaged in Primary production. India, with the lowest per capita income but with 62·4 per cent of Primary and 23·2 per cent of Tertiary workers, seems to be an exception to the rule.

5. Primary Workers.

Real income is shown in the Table on p. 132 in what Colin Clark calls International Units. Income per occupied person in national currency has been reduced to a common standard by conversion into U. S. A. dollars with purchasing power equal to that of the period 1925-34.

Fig. 14 (p. 134) shows the variation of income (y) with a rise in the proportion of workers engaged in primary production (x). The trend is measured by a straight line with the equation:

$$y = 1160{\cdot}87 - 13{\cdot}6x$$

The straight line has a negative slope, *i.e.*, it slopes down from left to right. The meaning is that income falls as the proportion of primary workers rises.

For Britain the proportion of primary workers is 6·4. This is our x. What is y?

$$y = 1160{\cdot}87 - (13{\cdot}6 \times 6{\cdot}4) = 1073{\cdot}83$$

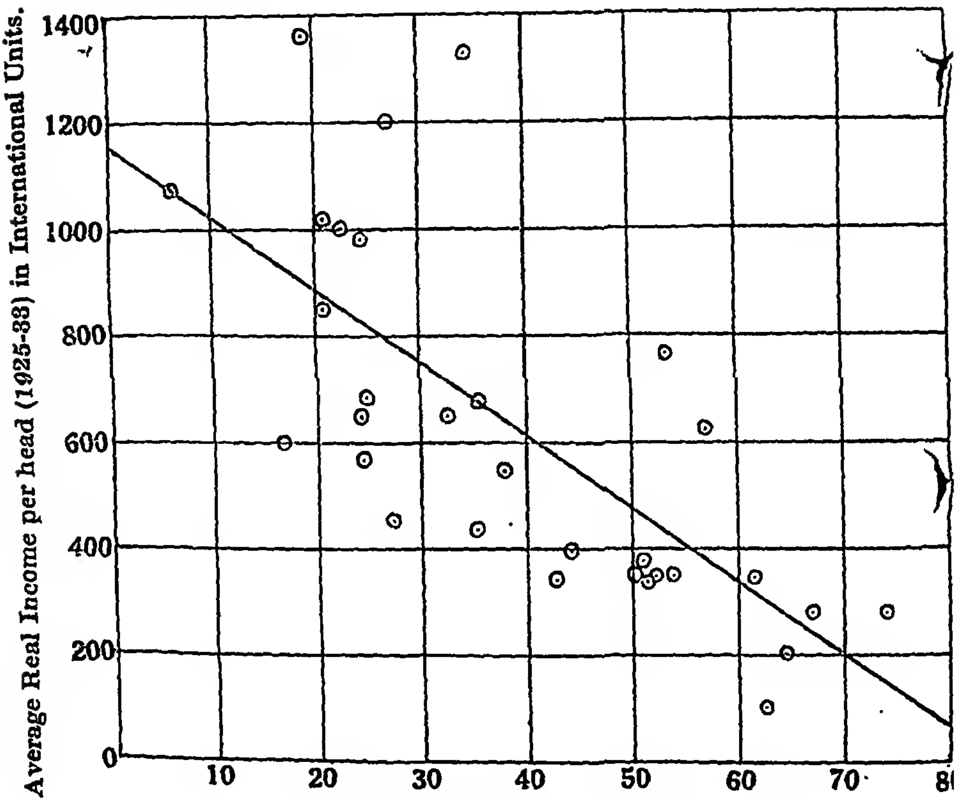
The observed value is 1069.

x for India is 62·4. What is y?

$$y = 1160{\cdot}87 - (13{\cdot}6 \times 62{\cdot}4)$$
$$= 1160{\cdot}87 - 848{\cdot}64 = 312{\cdot}23$$

Actually our income is shown as 110.

In this case the discrepancy can be explained. The proportion of primary workers in India in 1931 was not 62·2 but much higher.



Fig, 14.

Showing correlation between the percentage of workers in primary occupations (agriculture, forestry and fishing) and *per capita* real income in 31 countries.

The equation to the fitted straight line is :

$$y = 1160{\cdot}87 - 13{\cdot}6x$$

At the census of 1921 the percentage of Primary workers was 73·3. Between 1921 and 1931 the rate of growth of agriculturists was faster than that of the general population in several provinces. The fall in the percentage of agricultural workers, as we have stated before, was due to changes in classification.

The discrepancy disappears if we assume the proportion of primary workers to be 77%. The exact figure will never be known ; very probably it is over 77%.

$$y = 1160{\cdot}87 - (13{\cdot}6 \times 77)$$
$$= 1260{\cdot}87 - 1047{\cdot}20 = 113{\cdot}67$$

6. Secondary and Tertiary Workers.

Fig. 15 shows the variation of income with increase in the proportion of secondary workers. The fitted straight line has a positive slope, that is, it rises from left to right.

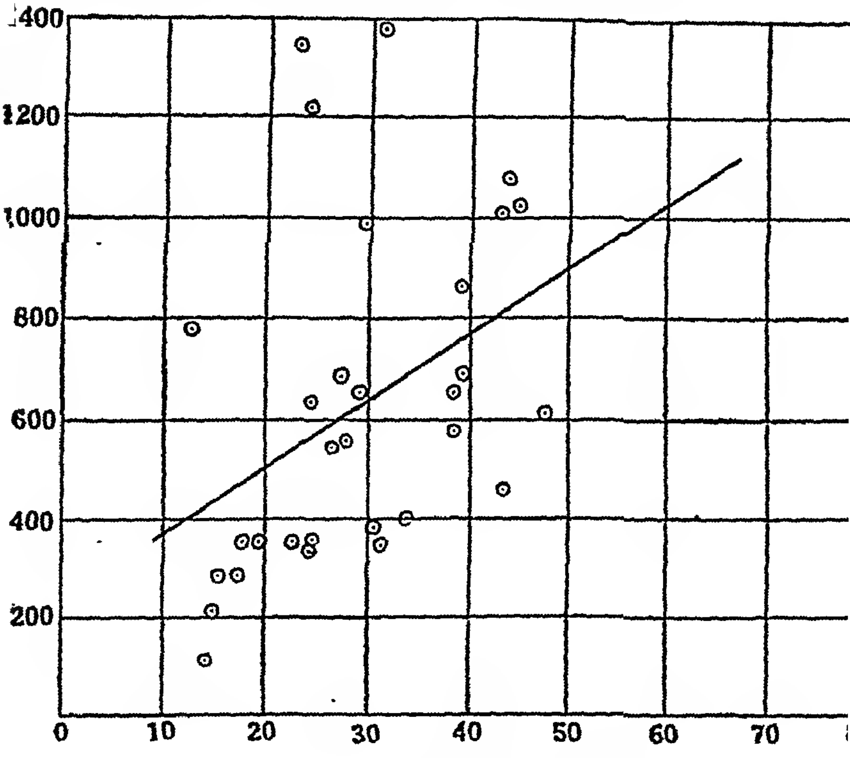


Fig. 15.

Showing correlation between the percentage of workers in secondary occupations (mining, building and industry) and *per capita* real income in 31 countries.

The equation to the fitted straight line is :—

$$y = 238{\cdot}3 + 13{\cdot}25x$$

Fig. 16 shows the variation of income with increase in the proportion of Tertiary workers. Again the straight line has a positive slope, but it rises more steeply than the straight line in Fig. 15.

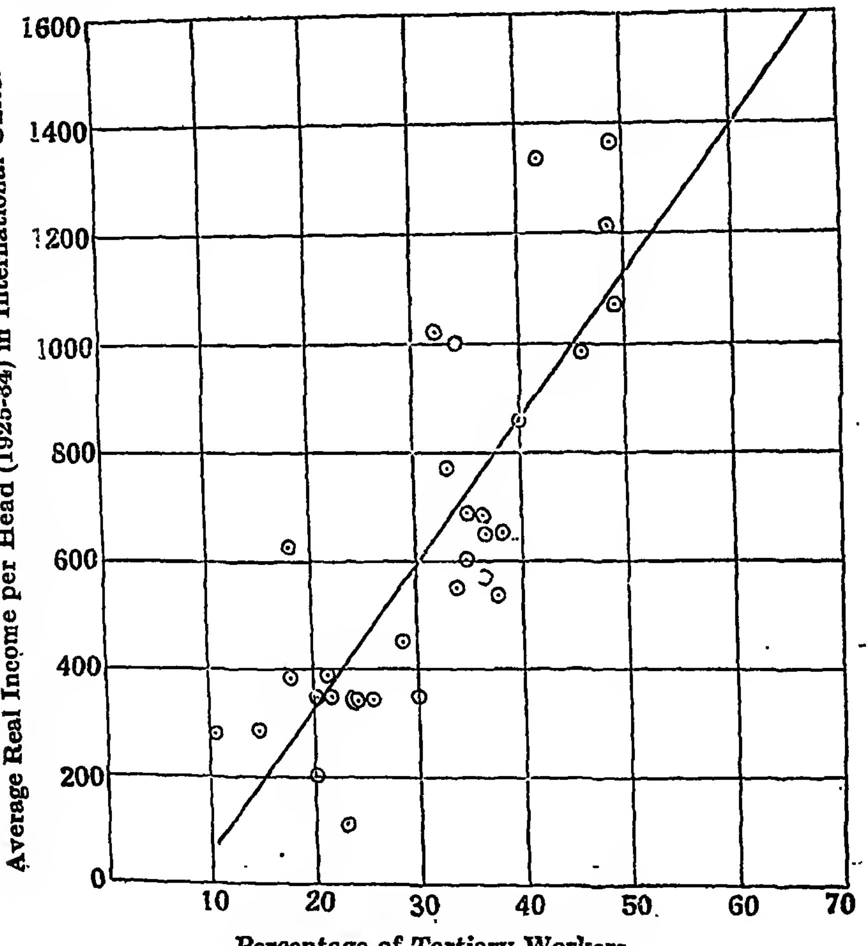


Fig. 16.

Showing correlation between the percentage of workers in Tertiary occupations (Commerce, Transport and Services) and *per capita* Real Income in 31 countries.

The equation to the fitted straight line is :—

$$y = -207{\cdot}05 + 26{\cdot}48x.$$

Of these three fitted straight lines, which gives relatively the best fit ? The deviations of calculated values from observed values are the smallest in the case of Tertiary workers. This means that a rise in national income will,

as a rule, be accompanied by a more marked increase in the proportion of Tertiary than Secondary workers.

The tertiary straight line has the equation :

$$y = -207{\cdot}05 + 26{\cdot}48x$$

For Britain the proportion of Tertiary workers is 49·7

$$y = -207{\cdot}05 + 26{\cdot}48 \times 49{\cdot}7$$
$$= -907{\cdot}05 + 1316{\cdot}06 = 1109.$$

The observed value is 1069 ; the calculated value exceeds the actual value by about 4 per cent.

The calculated value for India is 407 (actual 110). Again the discrepancy can be explained.

Excluding 7,197,000 female servants from the return for 'Domestic Service' (they belong to Agriculture), we have the following figures :

		"Service", 1931
Transport	...	2,341,406
Trade	...	7,913,597
Public Administration and Liberal Arts	...	4,146,899
Persons living on their income	...	215,874
Domestic Service	...	3,701,277
Total	...	18,319,053
Total number of workers	...	153,916,000

Proportion of workers in Tertiary Production to total number of workers ... 11·9%

The figure used by Colin Clark is 23·2%. Obviously he took our return of 'Domestic Servants', as of agricultural workers, at its face value. He attempts an explanation. In England income distribution is markedly unequal and we find a high proportion of domestic servants. "In India, on the other hand, exceptionally low wages, and the absence of alternative employment enable those who have incomes slightly above the average to employ servants rather than to spend their incomes on primary and secondary produce." *

We may reject 23·2% as the proportion of our Tertiary workers as totally impossible. What is the amount of national income given by 11·9% ?

$$y = -207{\cdot}05 + 24{\cdot}68x$$

* Colin Clark, loc. cit. P. 184.

$$= -207{\cdot}05 + 24{\cdot}68 \times 11{\cdot}9$$
$$= -207{\cdot}05 + 315{\cdot}11 = 107{\cdot}06.$$

7. Changes in Income with Occupational Changes.

Let us ignore Secondary producers. Suppose national income is rising in units from 100 to 1,000. How will the proportion of Primary and Tertiary producers change ? Our equations give the following answer.

Table VIII. 2.

National Income I. U.	Percentage of total number of Workers	
	Primary producers.	Tertiary producers.
1000	11·83	45·58
900	19·18	41·80
800	26·13	38·02
700	33·88	34·24
600	41·23	30·46
500	48·58	26·68
400	55·93	22·90
300	63·28	19·12
200	70·63	15·34
100	77·98	11·56

Reading the table from bottom upwards, the proportion of primary producers declines from 77·98 to 11·83, and that of Tertiary producers rises from 11·56 to 45·58.

8. Experience of other Countries.

Industrialisation must be accompanied by a fall in the proportion of workers engaged in Primary occupations. This is a universal phenomenon. Between 1872 and 1935 this proportion fell from 72·3% to 25·4% in the United States; in Great Britain it fell from 22·7% to 6·4% between 1841 and 1931; in Germany from 39·1% to 20·4% between 1882 and 1933; and in France from 43·0% to 24·5% between 1866 and 1931. In Japan the proportion of agricultural workers to the total was as high as 84·8% in 1872. Fifteen years later, in 1887, it had fallen to 71·8%, and 15 years later, in 1912, to 61·5%. According to the figures of the International Labour Office this proportion in 1920 was 53·5% and ten years later, in 1930, 50·3%.

* Colin Clark : loc. cit., Chapter V.

Economic conditions in India and Japan are not similar, but rapid industrialisation may be expected to substantially reduce the proportion of our agricultural workers.

If our national income may now be taken as 110, the trebling of it involves reducing the proportion of agricultural workers to about 60% of the total number of workers.

Figs. 17 (p. 140) and 18 (p. 141) show *per capita* income in International Units and the percentage of workers engaged in primary production in 13 countries. It is not suggested that where this percentage is high, *per capita* income must always be low. Per capita real income is highest in the United States, with a percentage of Primary workers three times higher than the British figure. With 34·5% and 27·1% of Primary workers Canada and New Zealand respectively have a higher *per capita* income than Great Britain. (Great Britain's case is exceptional.) The efficiency of labour and organisation, natural resources, availablity of capital and other factors have also a bearing on national income. But, except in new countries, agriculture as a source of income is intrinsically inferior to industry, and such countries as India must industrialise to raise *per capita* income.

9. Cost of Industrialisation.

Having learnt the meaning of industrialisation, let us consider its cost.

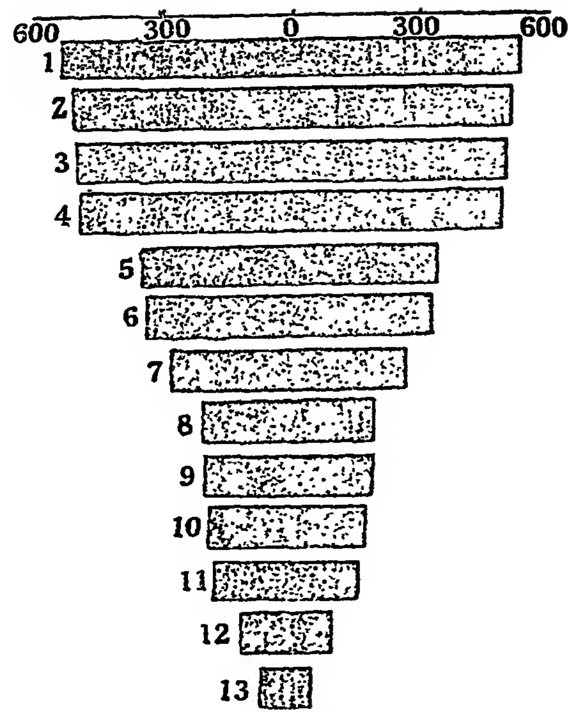
Industrialisation is a costly affair, much more costly than is is suggested by the figure adopted for industries in the Bombay Plan, 4,480 crores.

The total capital investment in Russia during the period of the First and Second Five Year Plans (1928-36) amounted to 165·5 milliard roubles, of which 83·4 milliard roubles, or slightly more than half, were accounted for by capital construction of industry.[10]

Capital investments during the first three years of the Third Five Year Plan amounted to 108 milliard roubles and in 1940 to nearly 38 milliard roubles. We do not know the proportion absorbed by capital construction of industry, but if it was half, as before, the sum invested in industry alone

* *Results of the Second Five year Plan and the Project of the Third Five year Plan.* A valuable brochure issued in July, 1939 by the Birmingham Research Bureau on Russian economic conditions, Russian Department of the University of Birmingham, P. 1.

		I. U.
1.	Great Britain ...	1069
2.	Switzerland ...	1018
3.	Argentine ...	1000
4.	Australia ...	980
5.	France ...	684
6.	Sweden ...	653

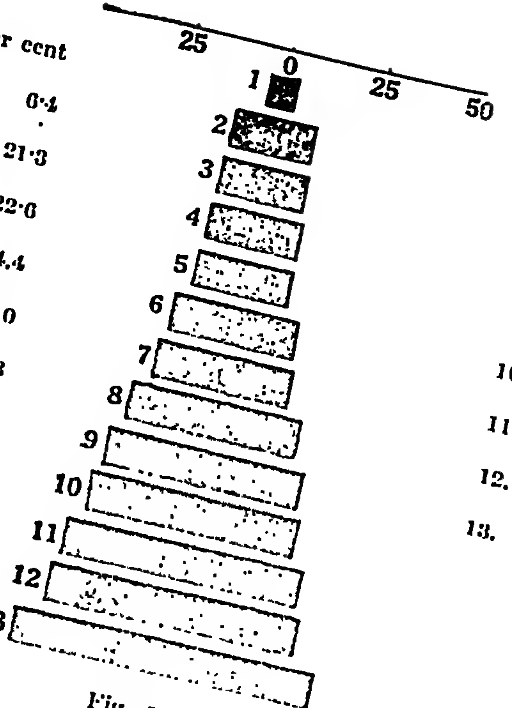


		I. U.
7.	Norway ...	539
8.	Greece ...	397
9.	Finland ...	380
10.	Hungary ...	359
11.	Poland ...	352
12.	Luthuania ..	207
13.	India ...	110

Fig. 17.

Showing income per occupied worker in International Units in 13 countries.
Source : *'The Conditions of Economic Progress'* by Colin Clark. Table facing p. 178.

	Per cent
1. Great Britain ...	6·4
2. Switzerland ...	21·3
3. Argentine ...	22·6
4. Australia ...	24·4
5. France ...	25·0
6. Sweden ...	32·3



	Per cent
7. Norway ...	35·3
8. Greece ...	44·2
9. Finland ...	51·0
10. Hungary ...	54·1
11. Poland ...	61·6
12. Luthuania ...	64·5
13. India ...	77·0 (?)

Fig. 18.

Showing the percentage of total workers employed in primary occupations (agriculture, hunting and fishing) in 13 countries.

Source : '*The Conditions of Economic Progress*' by Colin Clark, Table facing p. 178.

for capital purposes, between 1928 and 1940, would amount to over 156 milliard roubles. We do not know the exact purchasing power of the rouble, but at the official rate of £=13 roubles, or 2 roubles=a rupee, this sum is equal to 7,800 crore rupees.

Germany. In 1932 Germany already possessed a highly developed industrial system and was well supplied with technical equipment. But, owing to the crisis of 1931, the industrial machine had broken down and capital was needed for replacement. Gross investment amounted to 4·2 milliard *RM* in 1932; 5·1 milliard *RM* in 1933 and 8·2 milliard *RM* in 1934—a gross investment of 17·5 milliard *RM* in 3 years. This sum, at the rate of 20 *RM*=£ is equal to £875,000,000 or 1,167 crore rupees. We are told that both in 1932 and 1933 net investment was negative, gross investment being less than the amount required for normal replacements.*

Our industrialisation must be adapted to the size of our population. Ignoring Education, Health and Housing, the three heads Industry, Agriculture and Communications, might well absorb Rs. 10,000 crores over a period of 15 years.

10. The Relation of Investment to Income.

The Bombay Plan proposes to increase national income by increasing investment. What is the relation of investment to national income ?

Keynes's Investment Multiplier tells us that when there is an increment of aggregate investment, income increases by an amount which is k times the increment of investment.

Suppose there is increase in investment in capital goods industries of 1 unit. Suppose our unit is 100 crores. The investment takes the form of buildings, machinery and raw materials. Producers get 100 crores. Of this sum, suppose one half is saved by them and one half spent on consumers' goods. This means another addition of 50 crores to the income of producers, Of the addition of 50 crores to their income, the producers again save one half and spend the other half on consumers' goods, and so on. The increase in producers' income is given by the series :

$$1+\tfrac{1}{2}+\tfrac{1}{4}+\tfrac{1}{8}+\tfrac{1}{16}+\tfrac{1}{32}+\tfrac{1}{64}+\ldots\ldots=2.$$

* *The Economic Recovery of Germany* by C. W. Guillebaud (Macmillan, 1932), P. 48.

Assuming that of a given increment in national income one half is spent and one half saved, k, or the Investment Multiplier, is 2.

Let us call the fraction of income spent on consumers' goods C. Then the amount saved is $1-C$, and

$$k=\frac{1}{1-C}=\frac{1}{1-\frac{1}{2}}=2.$$

Suppose $1-C={}^{\cdot}25$, or saving is one-fourth of a given increment in income, C being equal to $^{\cdot}75$. Then

$$k=\frac{1}{1-C}=\frac{1}{1-{}^{\cdot}75}=\frac{1}{{}^{\cdot}25}=4.$$

k is not a mere abstraction but a reality. It has been calculated for various countries at different periods of time. k will not have the same value in any country from year to year, and it will be different for different countries.

The relation between investment and national income in the U.S.A. is illustrated by the following Table :

Table VIII 3.

The Relation between Investment and Income in U.S.A. 1921—1935. Figures in milliards of dollars.

Year.	Net National Income.	Investment + Deficit.	National Income (calculated)	d
1921	58·3	11·0	57·6	−·7
1922	59·7	12·9	63·1	+3·4
1923	69·7	17·7	76·9	+7·2
1924	70·4	14·0	68·8	−1·6
1925	74·8	18·7	79·8	+5·0
1926	79·5	18·0	77·8	−1·7
1927	77·4	17·3	75·8	−1·6
1928	80·4	17·3	75·8	−4·6
1929	83·4	19·7	82·7	− ·7
1930	72·9	14·0	66·2	−6·7
1931	56·0	9·9	54·5	−1·5
1932	39·6	5·2	40·9	+1·3
1933	39·3	5·3	41·2	+1·9
1934	47·8	6·8	45·5	−2·3
1935	53·0	10·4	55·9	+2·9
				−21·4
				+21·7

Source :—Colin Clark, loc. cit. P. 477.

Let us call national income y and investment x. Then the relation of x to y is given by the following equation :

$$y = 2{\cdot}8778x^{*}$$

The meaning is that, on an average, an investment of 1 unit increased national income by 2·8778 units. k is thus equal to 2·8778 for the whole period.

We know now how national income increases with investment. We may also note that for increase in income it is immaterial whether investment is out of genuine savings or 'created money'. In a time of depression Government may create employment by undertaking a large programme of public works. The programme may be financed with gold, or notes, or credit money created by banks. The effect on national income in all three cases is just the same—it increases by an amount which is k times the increment of investment.

11. Capital Requirements.

The capital requirements of the Bombay Plan have been estimated on the basis of the ratio of capital employed to the net product of capital. The ratio assumed seems unduly low —2·4. What is this ratio in other countries ?

[See Tables VIII. 4 and VIII. 5 on page 145.]

In the Bombay Plan capital includes land. Excluding land values, but including buildings, the ratio in Great Britain has varied between 2·68 and 4·46 ; among different countries it varies between 3·25 for Japan and 5·85 for Argentine. The ratio is found simply by dividing capital by product.

Suppose we call capital in Table VIII. 3 x and product y. What is the relation between x and y ?

$$y = {\cdot}1955x,$$

which means that 100 y = 19·55 x, or capital is about 5 times the product.

* The calculated national income has been obtained with the help of the following formula :

$$y^c - \bar{y} = 2{\cdot}8778\ (x - \bar{x})$$

where $\bar{y}$ = arithmetic average of y, and

$\bar{x}$ = „ „ of x

$\bar{y} = 64{\cdot}15$

$\bar{x} = 13{\cdot}27$

What is y when x is 11·0 ?

$$y^c - 64{\cdot}15 = 2{\cdot}8778\ (11{\cdot}0 - 13{\cdot}27) = 2{\cdot}8778 \times (-2{\cdot}27) = -6{\cdot}53$$

$$y_c = 64{\cdot}15 - 6{\cdot}53 = 57{\cdot}62.$$

The figures are in International Units per head of the working population.

Table VIII. 4.

Different countries

	Capital	Product	Ratio
U.S.A. ...	5160	1191	4·33
Canada ...	4590	1061	4·31
Australia ...	4100	742	5·53
Argentine ...	4680	800	5·85
Germany ...	3130	704	4·45
France ...	3060	629	4·87
Britain ...	3590	966	3·72
Italy ...	1430	328	4·36
Spain (1935) ...	2150	600	3·58
Austria ...	1580	452	3·50
Hungary ...	1110	220	5·05
Sweden ...	2680	474	5·65
Belgium ...	2190	470	4·66
Japan (1930) ...	980	301	3·25

Table VIII. 5.

Great Britain

	Capital	Product	Ratio
1865	1420	530	2·68
1875	1950	600	3·25
1885	3210	720	4·46
1895	3610	810	4·46
1905	4010	900	4·46
1909	3990	930	4·29
1914	3640	970	3·75
1928—1935	5350	1230	4·35

Source : Colin Clark, pp. 359 and 392

12. Douglas Cobb Formula.

The product of industry is not due to capital alone; it is a joint product due to all factors of production. Assuming the contribution of land and enterprise to be constant, we may express the relation of capital (C) and labour (L) to product (P) by the following formula:

$$P = bL^{k}C^{1-k}$$

This is known as the Douglas-Cobb formula. It has been used for the study of U.S.A. data over the period 1899-1922 and data for the State of Massachusetts over the period 1890-1926. In both cases the values of the constants are practically identical.

$$\text{U. S. A}: P = 1{\cdot}01\ L^{\cdot 741}C^{\cdot 259};$$
$$\text{Massachusetts}: P = 1{\cdot}01\ L^{\cdot 743}C^{\cdot 254}$$

The Douglas-Cobb formula has been widely discussed, and we have explained it in the Appendix to this Chapter. To form an idea of the ratio of capital to product we may proceed more simply.

Assume that product (P) is due to two factors alone, C (capital) and L (labour). Then, assuming a straight line

relationship between the three variables,

$$P = a + kC + (1-k)L$$

Using this formula for the study of the data mentioned above it is found that:

For U.S.A.: $P = 3{\cdot}36 + {\cdot}1782C + {\cdot}8218L$

For Massachusetts: $P = 2{\cdot}16 + {\cdot}1798C + {\cdot}8202L$

How these equations were obtained is explained in Appendix C. The calculated values of P are shown in the tables given below. The deviations (d) of the calculated values from observed values are shown in the last column.

Table VIII. 6.

Index of Production for the United States, actual and calculated

Year	P. 1899 =100	Capital, 1899=100	Wage earners employed 1899=100	Calculated P.	*d.*
1899	100	100	100	103	+ 4
1900	101	107	105	109	+ 8
1901	112	114	110	114	+ 2
1902	122	122	117	121	− 1
1903	124	131	122	127	+ 3
1904	122	138	116	123	+ 1
1905	143	149	125	133	−10
1906	152	163	134	143	− 9
1907	151	176	140	150	− 1
1908	126	185	123	137	+11
1909	155	198	143	156	+ 1
1910	159	208	147	161	+ 2
1911	153	216	148	163	+10
1912	177	226	155	171	− 6
1913	184	236	156	174	−10
1914	169	244	152	172	+ 3
1915	189	266	156	179	−10
1916	225	298	183	207	−18
1917	227	335	198	226	− 1
1918	223	366	201	234	+11
1919	218	387	196	233	+15
1920	231	407	194	235	+ 4
1921	179	417	146	197	+19
1922	240	431	161	212	−28
					+94
					−94

Source. *The Theory of Wages* by P. H. Douglas. Chapter V, p. 121, 126, and 134.

Table VIII. 7.

The Massachusetts data: 1899 = 100

Year.	P.	L.	C.	Calculated P.	d.
1890	72	78	95	83	+11
1891	78	81	96	86	+ 8
1892	84	85	99	90	+ 6
1893	73	77	96	83	+10
1894	72	72	93	78	+ 6
1895	83	84	80	87	+ 4
1896	81	81	82	83	+ 2
1897	93	89	92	92	− 1
1898	96	91	92	93	− 3
1899	100	105	100	106	+ 6
1900	105	105	104	107	+ 2
1901	118	108	106	110	− 8
1902	129	118	116	120	− 9
1903	130	122	122	124	− 6
1904	130	117	127	121	− 9
1905	142	130	137	133	− 9
1906	150	139	144	142	− 8
1907	152	147	153	150	− 2
1908	146	131	157	138	− 8
1909	160	143	205	156	− 4
1910	169	158	251	177	+ 8
1911	181	159	263	180	− 1
1912	193	160	274	188	− 5
1913	195	168	282	191	− 4
1914	201	165	324	196	− 5
1915	200	162	324	193	− 7
1916	209	180	361	220	+11
1917	196	193	410	234	+38
1918	220	196	436	241	+21
1919	212	195	477	248	+36
1920	216	190	475	243	+27
1921	208	158	454	213	+ 5
1922	229	167	454	221	+ 3
1923	256	182	458	234	−22
1924	234	160	458	216	−18
1925	245	161	458	217	−28
1926	258	164	454	218	−40
					+291
					−290

(*Source.* Douglas, loc cit., p. 160.)

In Table VIII. 6 calculated *P* is shown as 212 for the year 1922. How was this value obtained?

U.S.A. $P = 3{\cdot}36 + {\cdot}1782C + {\cdot}8218L$
$= 3{\cdot}36 + {\cdot}1782 \times 431 + {\cdot}8218 \times 161$
$= 3{\cdot}36 + 76{\cdot}80 + 132{\cdot}31 = 212{\cdot}47$
$d = 240 - 212 = -28$, and so on,

Again, the values of the constants are practically identical. Our equations would suggest that the ratio of capital to product in the United States was about 5 to 1.

No single ratio, as has been stated above, can be valid for all countries, or for the same country at different times. Our own present ratio may be lower—the data for determining it are not available. But the equations given above and the Douglas-Cobb formula suggest the same conclusion: modern methods of production require large amounts of fixed capital.

APPENDIX C

The Douglas-Cobb Formula

The formula is :

$$P = b\,L^k\,C^{1-k},$$

where P=units of product ; L=units of labour, and C=units of capital ; b, k, and $1-k$ are constants.

The equation fitted to U.S.A. and Massachusetts data is

$$P = 1{\cdot}01\,L^{\cdot 75}C^{\cdot 25}.$$

The value of b is small and we may ignore it. The meaning of the equation is that the contribution of labour to the product is three-fourths, and of capital one-fourth. We ignore land and enterprise.

The equation has been used in the discussion of the Bombay Plan, and we may try to understand it.

Suppose $P = 2^2$

$2^2 = 2 \times 2 = 4$

If $P = 2^2$, $\log P = 2 \log 2 = 2 \times {\cdot}30103 = {\cdot}60206.$

The anti-log of ${\cdot}60206 = 4$

Suppose $P = 2^2 \cdot 3^2 = 2 \times 2 \times 3 \times 3 = 36$

If $P = 2^2\,3^2$, $\log P = 2 \log 2 + 2 \log 3$
$= 2 \times {\cdot}30103 + 2 \times {\cdot}47712$
$= {\cdot}60206 + {\cdot}95424 = 1{\cdot}55630.$

Anti-log of $1{\cdot}55630 = 36.$

$$P = b\,L^k\,C^{1-k}$$

$\therefore$ $\operatorname{Log} P = \log b + k \log L + (1-k) \log C$

Fitting the Equation.

$\operatorname{Log} P = \log b + k \log L + (1-k) \log C$
$= \log b + k \log L + \log C - k \log C$

$$\text{Log } P - \log C = \log b + k (\log L - \log C)$$

Put $(\log P - \log C) = y$, and $(\log L - \log C) = x$

Then the equation has the form $Y = a + bx$, and it may be fitted by the method of least squares, using two normal equations :—

(1) $\Sigma (\log P - \log C) = N \log b + k \Sigma (\log L - \log C)$

(2) $\Sigma [(\log P - \log C)(\log L - \log C)] = \log b \Sigma (\log L - \log C) + k \Sigma (\log L - \log C)^2$

For the United States the equations are :

(1) $-2{\cdot}0127 = 24 \log b - k\, 4{\cdot}0268$

(2) $\cdot 756833 = -4{\cdot}0268 \log b + k\, 1{\cdot}034033$

$$P = 1{\cdot}009\, L^{\cdot 741}\, C^{\cdot 259}.$$

For the State of Massachusetts the equations are :

(1) $-4{\cdot}8041 = 37 \log b - k\, 6{\cdot}0257$

(2) $1{\cdot}634338 = -6{\cdot}6257 \log b + k\, 2{\cdot}224590$

$$P = 1{\cdot}009\, L^{\cdot 743}\, C^{\cdot 257}$$

The constants are practically identical, and ignoring b the relationship may be described as

$$P = L^{\cdot 75}\, C^{\cdot 25}$$

If we have 100 units of P, and also 100 units each of L and C, then the marginal productivity of capital $= {\cdot}25$, or $\frac{1}{4}$, and the total return to capital $\frac{1}{4} \times 100 = 25$.

The ratio of capital to product is thus 4 : 1.

The Douglas Cobb formula has been explained as it has attracted wide notice. Actually it is not indispensable to a quantitative study of the relationship between P, C and L

There is a high degree of rectilinear correlation between the three variables and we may, therefore, use the formula :

$$P = a + k\, L + (1 - k)\, C$$
$$= a + k\, L + C - k\, C,$$

or $$P - C = a + k\, (L - C).$$

This equation can be fitted to the data with the expenditure of far less time and effort than that required for the Douglas-Cobb formula, and with results which are quite as good, if not slightly better*

*Standard Error of the estimate $\sqrt{\frac{\Sigma d^2}{N}}$

Formula	U. S. A.	Massachusetts
$P = b\, L^k\, C^{1-k}$	$\sqrt{\frac{2609}{24}} = 10{\cdot}425$	$\sqrt{\frac{9761}{37}} = 16{\cdot}242$
$P = a + k\, L + (1 - k)\, C$	$\sqrt{\frac{2604}{24}} = 10{\cdot}416$	$\sqrt{\frac{8374}{37}} = 15{\cdot}044$

The deviations of calculated values from observed values in the case of the Douglas-Cobb formula are those calculated by Douglas. They are not percentage deviations.

See *The Theory of Wages* by P. H. Douglas, pp. 134 and 163.

The two normal equations which we have used are :

(1) $\Sigma\,(P-C)=Na+k\,\Sigma\,(L-C)$

(2) $\Sigma\,[(P-C)\,(L-C)]=a\Sigma\,(L-C)+k\,\Sigma\,(L-C)^2$

For the United States the two equations are :

(1) $453=24a+2{,}090k$

(2) $67{,}160=2{,}090a+337{,}516k$

$$P=3{\cdot}36+{\cdot}1782C+{\cdot}8218L$$

For the State of Massachusetts the two equations are :

(1) $778=37a+3{,}882k$

(2) $171{,}172=3{,}882a-905{,}278k$

$$P=2{\cdot}16+{\cdot}1798C+{\cdot}8202L$$

Ignoring the constant a, the ration of P to C is about 5 : 1 in both cases. The data for 14 countries borrowed from Colin Clark also suggests a ratio of 5 : 1 ($P={\cdot}1955C$). See p. 144

In the study of the relationship between P, L and C better results are *not* obtained by working with free co-efficients of L and C. In our formula, as in the Douglas-Cobb formula, k is the co-efficient of L and $(1-k)$ the co-efficient of C, so that $k+1-k=1$,

CHAPTER IX

THE GAINS OF FOREIGN TRADE

Our planning assumes a 'closed' economy. Does not a 'closed' economy sacrifice the advantages of the territorial division of labour ? It is proposed to treble India's national income within a period of 15 years, chiefly by industrialisation. Why should we not concentrate all effort on the improvement of agriculture, relying on the industrial countries of the West to supply us with better and cheaper manufactured goods in exchange for our agricultural products ?

It would be extremely unwise not to do so if the gains which are supposed to result from the law of comparative costs were real. In the case of an agricultural country like India these gains are purely illusory.

1. Ricardo.

We may begin with Ricardo's much discussed example.

One hundred men, working for a whole year, produce a certain quantity of cloth in England, and 120 men, working for a whole year, produce a certain quantity of wine.

In Portugal the labour of 80 men for one year suffices to produce the same quantity of wine, and of 90 men working for the same time, the given quantity of cloth.

Portugal possesses an absolute advantage over England in the production of both commodities, but a greater comparative advantage in the production of wine. Ricardo says :

"Though she [Portugal] could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of a hundred men to produce it, because it would be advantageous for her to employ her capital in the production of wine, for which she would obtain more cloth from England than she could produce by diverting a proportion of her capital from cultivation of vines to the manufacture of cloth."*

*Works, edited by McCulloch, 1888, pp. 76-77.

McCulloch, in a footnote to Ricardo's *Works*, which he edited, thus illustrates Ricardo's arguments :

"Two men can make both shoes and hats, and one is superior to the other in both employments ; but in making hats he can only exceed his competitor by one-fifth or 20 per cent, and in making shoes he can excel him by one-third, or 33 per cent ;—will it not be to the interest of both that the superior man should employ himself exclusively in making shoes, and the inferior man in making hats ?"*

The superiority of Portugal in making wine is 120/80=1·5, or 50 per cent, and in making cloth 100/90=111, or 11%.

Suppose Portugal exports wine to England. With the labour of 80 men Portugal would secure 120/100 of British cloth. Since 90 men are required to produce the given quantity of cloth in Portugal, the labour of 80 men would have produced 80/90 cloth.

The proportion between imports and the home production of cloth thus is :

$$120/100 : 80/90 = 1·35\ (1·2/0·8889),$$

or there is a gain of 35 per cent.

In England the labour of 100 men produces 100/120 of wine, while the labour of 100 men will procure from Portugal, by way of import, 90/80 of wine.

The proportion between the import and the home production of wine for England thus is :

$$90/80 : 100/120 = 1·35\ (1·125/0·8333).$$

or a gain of 35 per cent, as in the case of Portugal.

More clearly, suppose that 100 men, working for a year in each country, produce :

Portugal :	120 units of wine	or	100 units of cloth
England :	80 ,, ,, ,,	or	90 ,, ,, ,,

The advantage of Portugal over England in wine production is 120/80=50 per cent, and in that of cloth, 100/90=11%.

With 200 men, working for a year, Portugal produces 240 units of wine, of which she exports 120 units to England. In England 80 units of wine exchange for 90 units of cloth, as they contain an equal quantity of labour. For 120 units of wine Portugal will obtain

$$\frac{120 \times 90}{80} = 135 \text{ units of cloth.}$$

* *Ibid*, P. 77.

There is a gain of 35 per cent for Portugal, as 100 Portuguese workmen produce only 100 units of cloth.

With the labour of 200 men England produces 180 units of cloth, of which she exports 90 units to Portugal, obtaining in return 108 units of wine $\left(\text{or } \frac{120 \times 90}{100}\right)$. Now 80 units of wine are produced in England by the labour of 100 men working for a year; 108 units of wine represent a gain of

$$\frac{100 \times 108}{80} = 135, \text{ or } 35 \text{ per cent.}$$

As the result of specialization, or territorial division of labour, the labour of 200 men for a year in each country gives:

Portugal:	120 units of wine and	135 units of cloth
England:	108 „ „ „ „	90 „ „ „

Portugal has secured more cloth and England more wine, the gain in each case being 35 per cent.

2. Terms of Trade. J. S. Mill.

Specialization brings a gain in which both countries may share. In Ricardo's example both countries are shown as enjoying the whole of the advantage arising from foreign trade.

J. S. Mill in his *Essays on Some Unsettled Questions of Political Economy* says:

"Mr. Ricardo, while intending to go no further into the question of the advantage of foreign trade than to show what it consisted of, and under what circumstances it arose, unguardedly expressed himself as if each of the two countries making the exchange separately gained the whole of the difference between the comparative costs of the two commodities in one country and in the other...The two countries taken together gain no more than this difference: and if either country gains the whole of it, the other country derives no advantage from the trade."

His example of the trade in linen and cloth between England and Germany illustrates how the share of the total gain going to each country will be determined by 'what Adam Smith calls the higgling of the market'.† Bastable re-states

* Third Edition, 1877, Pp. 5-6.
† Ibid. P. 10.

Mill's example in his *International Trade*, replacing linen and cloth by x and y.

3. Bastable.

There are two countries A and B and two commodities x and y. A unit of productive power in A can produce $10x$ or $20y$, and in B, $10x$ or $15y$. The units need not be the same in the two countries. A unit of productive power means a given amount of labour working with an average amount of capital. We assume that x and y may be proportionately increased 'up to any assignable limit by a proportionately increased amount of productive power.' It follows that in B, $10x=20y$, and in A, $10x=15y$. We also assume that there are no impediments to foreign trade in the form of cost of transportation, customs duties, or in any other form.

If x and y are produced in both countries, total production with two units of productive power in each country is $20x+35y$; if A specializes in y and B in x, total production increases to $20x+40y$, a clear gain of $5y$

The rate of exchange is determined by the comparative intensity of demand on each side within the limits set by comparative costs. Suppose the higgling of the market fixes the rate at $18y=10x$; then country A gains $2y$, and country B, $3y$.

Taking x to be wheat and y to be cloth A, the industrial country, by exporting 18 units of cloth out of a total production of 40, secures 10 units of wheat and 22 units of cloth, while the agricultural country B has 10 units of wheat and 18 units of cloth. Both countries are gainers by foreign trade, but the terms cf trade are in favour of the agricultural country.

Impediments to foreign trade in the shape of customs duties will reduce the gain to the consumer.

Such is the well-known and oft-stated classical argument in favour of free trade and international co-operation in the economic sphere. International trade sets free the productive force of each country for application in directions 'which offer the best chance of high returns, so that the efficiency of each productive unit is much increased.'*

4. Agrar-Industriestaat oder Industriestaat (Agricultural-Industrial or Industial State).

Till about 1850 the territorial division of labour had not been carried very far ; most countries were agricultural-industrial

* Bastable : *International Trade* (1903), p. 19

countries, that is, the distinction between agricultural countries exporting foodstuffs and raw materials, and industrial countries exporting manufactured goods, was not of very great importance. The Corn Laws were abolished in England in 1846. British agriculture declined in consequence, but British industry progressed by leaps and bounds. Improvement in transport technique made it possible for an industrial country to import food and raw materials cheaply from distant parts of the world, and the territorial division of labour became more and more marked. The countries of Western Europe built up a highly developed industrial system in course of a few decades; Eastern Europe remained predominantly rural.

In the East, India for centuries had been an Agrar-Industriestaat, with emphasis on hand-industry. Machine competition began to transform our economy during the first half of the 19th century: the opening of the Suez Canal in 1869 and the adoption of free trade in 1881 completed the change. In spite of the progress of certain manufacturing industries, as we have seen, about 75 per cent of our exports before the war consisted of raw materials and stuffs, and about 75 per cent of our imports, of manufactured goods.

The one-sided development of such countries as England was viewed with great concern by some prominent thinkers. There is danger of starvation in war, unless the the sea-routes can be kept open. Apart from this danger, it was thought that the position of industrial countries in trading with agricultural countries was weak. Quesnay wrote: "In trade between two countries the country which sells the most indispensable commodities has an advantage as it is independent of the other, being able, in unfavourable circumstances, to do without objects of luxury—manufactures—while the country which buys food-stuffs cannot restrict their consumption, and becomes a tributary of the other."

Our position as an exporter of 'indispensable commodities', foodstuffs and raw materials, was one of great strength for many years. But who could have foreseen the Agricultural Revolution ?

Whatever be the fate reserved for the industrial countries of the West in the remote future, industrialisation has increased their productive power a thousand fold, and enriched them. In contrast, the territorial division of labour has impoverished agricultural countries.

Friedrich List in Germany was the first to denounce free trade. More recently, the case for protection has been ably argued by M. Manoilesco,* sometime Minister of Industry and Trade of Roumania. Manoilesco's theory of protection is regarded as a protest of South Eastern Europe against a laissez faire policy in international trade. The title of 'the Roumanian List' † has been conferred upon Manoilesco.

Laissez faire in international trade is a thing of the past. The talk, even in England, is of *quantitative* controls, which go much beyond protection by means of the tariff.

A self-sufficient economy is not merely a repudiation of laissez faire but of international economic co-operation. We shall make an attempt to show that industrialisation which made us self-sufficient in a high degree would bring advantages which far exceed the gains of foreign trade.

5. How an Industrial Country gains by Foreign Trade.

In Bastable's example (or J. S. Mill's) the gains of foreign trade are shared between the two countries in a proportion determined by their reciprocal intensities of demand (within the limits set by the law of comparative costs). But under certain conditions, which may be described as normal rather than abnormal, an industrial country may agree to terms which apparently bring it no advantage, and yet be a substantial gainer in the long run.

Let us suppose that x in Bastable's example is a composite agricultural commodity representing all primary products and that, similarly, y represents manufactured goods. The two countries we may call I (industrial) and A (agricultural).

If the *rate of exchange*, settled by higgling and bargaining, is $18y=10x$, the gain of I is $2y$ and of A $3y$. But I may agree to give $20y$ for $10x$ and still gain. How ?

We cannot assume that as trade between the two countries develops, production of x and y will remain subject to the law of constant returns. Assume that I ceases to produce x. Its two units of productive power are wholly applied to y. The law of increasing returns comes into operation. Assume that originally I required an equal number of labourers, say, 100, to produce $10x$ or $20y$. As the scale of production increases, the same amount of y may be produced by a smaller expenditure of labour-power.

**The Theory of Production and International Trade*, 1931 (P.S King).
†*Weltwirtschaftliches Archiv*, Kiel, 1938. p. 373.

In the table given below the number of labourers required to produce $20y$, which I gives to A for $10x$, steadily decreases as shown in col. 1. If 100 labourers are required to produce $20y$, I's gain from foreign trade is *nil*; she is neither worse off nor better off than before. But if 95 labourers, as the result of

Number of labourers required to produce 20 y in I.	No. of labourers set free for the production of y in I	Additional y produced by labourers shown in col. 2	I's increase in real income	Increase of real income per cent	Increase of productive power per cent
100	100	20·00	0·00	0·00	0·00
95	105	22·11	2·11	10·55	5·26
90	110	24·44	4·44	22·20	11·11
85	115	27·06	7·06	35·30	17·65
80	120	30·00	10·00	50·00	25·00
75	125	33·33	13·33	66·65	33·33
70	130	37·14	17·14	85·70	42·86
65	135	41·54	21·54	107·70	53·85
60	140	46·67	26·67	133·35	66·67
55	145	52·73	32·73	163·65	81·82
50	150	60·00	40·00	220·00	100·00
45	155	68·89	48·89	244·45	122·22

improvements in the methods of production, can produce $20y$ for A, 105 labourers are set free to produce y for I. They will produce 22·11 $y \left(=\frac{20 \times 105}{95}\right)$. The increase in I's real income is 2·11y (22·11y now produced *less* $20y$ produced by 100 labourers before specialization.) The percentage increase in I's real income (col. 5) is 10·55 $\left(=\frac{2{\cdot}11 \times 100}{20}\right)$, while the percentage increase in I's productive power (col. 6) is only about half of this figure, 5·26 $\left(=\frac{100 \times 100}{95}\right)$.

Suppose $20y$ may be produced by 50 labourers. Then 150 labourers in I are set free to produce y for themselves. They will produce $60y \left(=\frac{20 \times 150}{50}\right)$. Having given $20y$ to A for $10x$ (primary products) the people of I are three times better off than before.

Bastable does not overlook the possible increase in the production of y. He says:

"The law of increasing returns operates in the opposite direction; thus, if the increased demand for y which arises from the growth of international exchange, causes it to be produced in A with greater ease, so that each unit will produce, say, $25y$, then it is clear that in order to dispose of the additional supply, y must be offered at lower terms".†

When there are two countries only, it is not clear why the agricultural country must obtain y cheaper than before. Conceivably, the increase in productive power in I may be utilised for reducing the hours of work—the people of I may buy more leisure; conceivably, the amount available for export may not be greater than before on account of increase in consumption due to a rise in the standard of living in I.

Assuming that the rate of exchange does not alter ($10x = 20y$) a given percentage increase in the productive power of I will increase its real income by twice that amount.

There are two sources of gain for I, (1) the effectiveness of labour in the production of y has increased, and (2) the less productive occupation has been abandoned.

6. The Case of the Agricultural Country.

The opening of foreign trade has converted A, formerly an Agrar-Industriestaat, into an Agrarstaat. What has she gained thereby?

We assume that A ceases to produce y. Consequently there is diversion of labour and capital from industry to agriculture. The pressure on agricultural resources in an old country will inevitably bring the law of diminishing returns into operation.

Gradually as trade develops, the number of labourers required to produce $20x$ in A rises from 200 to 255. Assume that the production of y in A is subject to the law of constant returns, so that for $10x$ and $20y$ she will require a labour force of 233 men. The operation of the law of diminishing returns would at first reduce A's gain from foreign trade, and finally turn into a loss. Suppose 250 men are required to produce $20x$. If A had remained an Agrar-Industriestaat, the labour of 100 men would have given her $10x$ and of 150 men $22\frac{1}{2}y$

† *International Trade*, p. 30.

No. of labourers required to produce 20 x in A.	No. of labourers required to produce 20y in A.	No. of labourers producing 10x for export	The amount of y that labourers shown in col. 3 would produce.	Net gain (+) or net loss (−) in terms of y
200	133	100	15	+5
205	133	105	$15\frac{3}{4}$	$+4\frac{1}{4}$
210	133	110	$16\frac{1}{2}$	$+3\frac{1}{2}$
215	133	115	$17\frac{1}{4}$	$+2\frac{3}{4}$
220	133	120	18	+2
225	133	125	$18\frac{3}{4}$	$+1\frac{1}{4}$
230	133	130	$19\frac{1}{2}$	$+\frac{1}{2}$
235	133	135	$20\frac{1}{4}$	$-\frac{1}{4}$
240	133	140	21	−1
245	133	145	$21\frac{3}{4}$	$-1\frac{3}{4}$
250	133	150	$22\frac{1}{2}$	$-2\frac{1}{2}$
255	133	155	$23\frac{1}{4}$	$-3\frac{1}{4}$

$\left(\text{or } \frac{15\times150}{100}\right)$. She is a loser by $2\frac{1}{2}\ y$ at least. Very probably her loss is greater. Modern methods of production are not the monopoly of any country, and labour and capital devoted to the production of y would bring the law of increasing returns into operation in A as in country I.

No. of labourers required to produce 20 y in A.	No. of labourers engaged in producing 10 x for export.	The amount of y that labourers shown in col. 2 would produce.	A's net gain (+) or net loss (−) in terms of y.	Percentage increase in industrial productivity.	A's gain or loss: Actual %	Calculated. %
100	100	15	+5	0·0	+ 33·8	—
95	105	$16\frac{11}{19}$	$+3\frac{8}{19}$	5·3	+ 22·8	—
90	110	$18\frac{1}{3}$	$+1\frac{2}{3}$	11·1	+ 11·3	—
85	115	$20\frac{5}{17}$	$-\frac{5}{17}$	17·7	− 1·5	1·38
80	120	$22\frac{1}{2}$	$-2\frac{1}{2}$	25 0	− 12·5	12·33
75	125	25	−5	33·3	− 25·0	24·78
70	130	$27\frac{6}{7}$	$-7\frac{6}{7}$	42·7	− 39·3	38·88
65	135	$30\frac{10}{13}$	$-10\frac{10}{13}$	53·9	− 53·9	55·68
60	140	35	−15	66·7	− 75·0	74·88
55	145	$39\frac{6}{11}$	$-19\frac{6}{11}$	81·8	− 97·8	97·53
50	150	45	−25	100·0	−105·0	124·83
45	155	$51\frac{2}{3}$	$-31\frac{2}{3}$	122·2	−158·4	158·13

If 85 men could produce 15y in A, then 115 men engaged in producing 10x for export would have produced $20\frac{5}{17}y$. As

A gets only $20y$ in exchange for $10x$, she is a loser by foreign trade to the extent of $\frac{5}{17}\ y$, a loss of 1·5 per cent. Suppose 50 men could produce $15y$, then 150 men would produce $45y$, and A suffers a loss of $25y$ by transformation into an agricultural country. An increase in industrial productivity of 100 per cent. would cause a percentage loss of 125 $\left(\text{or } \frac{100 \times 25}{20}\right)$. The law connecting the percentage increase in industrial productivity and the percentage increase in loss in this case has the form :

$$y = -25 \cdot 17 + 1 \cdot 5\ x.$$

The calculated values are shown in the last column.

When there are more than two countries, the cheapening of y, as the result of competition among industrial countries, may reduce the disadvantage of A, but not remove it. If there is keen competition among agricultural countries, the disadvantage of A may even increase.

7. Assumptions and Reality.

M. Manoilesco estimates that in the total income of 22 countries in 1896, amounting to 10,780 million £, the share of agriculture was 2,132 million £, or 20 per cent. These 22 countries include U.S.A. Canada, Argentine and Australia, but not India,

Approximately 20 per cent of total income was produced by 52 per cent of the total number of workers. It follows that 80 per cent of the total income was produced by the remaining 48 per cent of the active population.

"As a mathematical result, all other human activities are, on an average, approximately 4·35 times as productive as agricultural activity".*

Even in an industrially backward country like India, industrial activity is more productive than agricultural activity.

It is estimated that in the year 1931, 53 per cent of India's total income was due to agriculture. Assuming that the proportion of agricultural workers to the total was no higher than in 1921, then 53 per cent of the total income was produced by 73 per cent of the total number of workers and 47

* Pp. 39-40 loc. cit. (Manoilesco).

per cent of the total income by 27 per cent of the total number of workers.

$$\frac{47}{27} : \frac{53}{73} = 2{\cdot}4$$

Thus in the year 1931 all other activity in India was 2·4 times more productive than agricultural activity.

Since income is estimated in money, the rise of agricultural prices relatively to those of manufactured goods would increase the percentage contribution of agriculture to national income, as a fall of agricultural prices would lower it. For the purposes of our argument it is immaterial in what precise degree industrial activity is intrinsically superior to agricultural activity. Assume a proportion of 2 : 1, or even 1·5 : 1. So long as industrial activity is more productive than agricultural activity, the Agrar-Industriestaat gains by transformation into Industriestaat. Its labour will be more productively employed, and particularly so because the law of increasing returns will come into operation.

The loss to an agricultural country is two-fold. Its labour is diverted from a more to a less productive occupation, and, secondly, the law of diminishing returns will make its disadvantage increase progressively. For a time imports may be cheaper in terms of real cost. Eventually, pressure of population in an old country must increase, *per capita* agricultural income must fall, and real cost of imports must rise.

The calculation of gain and loss in the examples given above is imaginary, but the principle illustrated finds confirmation in the facts of economic history.

The United Kingdom has the lowest proportion of workers engaged in Primary occupations and, ignoring new countries, she has the highest *per capita* income. The lowest *per capita* income is shown by countries with the highest proportion of workers engaged in Primary production.

The effect of foreign trade in diverting labour from industry to agriculture is clearly seen in India; our dependence on the soil has increased during the past 60 or 70 years.

The evil consequences of the growing pressure of population on the soil are now manifesting themselves. For a time the development of canal irrigation and the expansion of agricultural resources created an impression of prosperity, That period is definitely over.

The territorial division of labour which enriches industrial countries at the cost of agricultural countries is not the best means of promoting the international harmony of interests. As M. Manoilesco says, " Antagonism of interests is substituted for harmony of interests between the two trading countries."*

8. Exploitation of Agricultural Countries by Industrial Countries.

A country may not be able to produce a certain commodity; in that case, if the commodity is indispensable, it must be imported. But to import a manufactured commodity when it can be produced within the country must mean loss in the end as there is a transfer of labour and capital from more to less productive employments. M. Manoilesco says :

" Every time that an agricultural country buys an industrial article that it ought to produce—*even at greater cost*—itself, it loses, or to use a more precise but more commercial expression, it does bad business."†

It would be difficult to explain European economic domination if foreign trade between Europe and other parts of the world had been equally advantageous to both parties. M. Manoilesco says :

"The truth is that this exchange has been extremely favourable to industrial Europe, which has found in industry a means of creating the maximum exchange value with the minimum human stress, and *of managing to exchange the labour of one English workman against the labour of five, ten, and even fifty workmen of other continents.*

" Owing to this, *national income and rapidity in the creation of wealth* have been in England five, ten, and even fifty times greater than the same income and the same rapidity in the countries with which it trades.

" In the light of this statement, the notion of economic domination assumes a precise meaning : *the economic domination of a country signifies the economic state which allows the produce of the labour of its workmen to be exchanged for the produce of the labour of a larger number of workmen of other countries.*"

Again,

"There are two kinds of exploitation, visible and invisible.

* Loc. cit. p. 99.

† Loc. cit. P. IX. (italics in all cases Manoilesco's)

Visible exploitation has been exercised in the course of centuries, and is up to the present still exercised in a reduced measure under cover of direct political domination. This is a kind of slavery.

" But this domination is not very important, especially at the present time. *It is the invisible exploitation which decides the economic position of peoples, and appears in their form of exchange and international commerce.*

" Industrial peoples have understood this secret instinctively. The industrial export products allow them to make more men work for them abroad than are put to work at home to create these products.

"At the time of slavery this result came through compulsion; at the present time it is obtained by the free exchange of products."*

India will do well to remember these words at a time when the United States wants freer international trade to promote international harmony and good will, and the United Kingdom greater inter-Imperial trade to cement the bonds of the Empire.

Be it said to the credit of Indian leaders that they never willingly accepted the trade policy which has resulted in the economic domination of India by industrial countries.†

* P. 7-8.

† Sir John Strachey thus refers to the abolition of the cotton duties in 1879 :

" None of the previous steps towards the abolition of customs duties had been taken by the Government without difficulty, and this further measure, which it was obvious must lead before long to the destruction of the whole fabric of the customs tariff, met with much opposition. Popular opinion in India had always, in regard to questions of fiscal reform, been obstructive and ignorant ; and the fact that the abolition of customs duties would be favourable to English manufacturers was enough, in the belief of many, to prove that the party purpose of obtaining political support in Lancashire, and not any care for the interests of India, was the real motive of the Government This foolish calumny deserved, and deserves no notice or reply. The opposition to the reform of the cotton duties satisfied Lord Lytton that he must carry out the measure himself, or acquiesce in nothing being done at all. He believed that the interests of India required it, and he was not to be deterred by the imputation of base motives. The measure was held by Lord Lytton to be one which could not rightly be delayed, and it was carried into effect on March 13, 1879. This step was taken by Lord Lytton in opposition to the opinion of a majority of his Council but on my advice as member in charge of the Finances" (*India, Its Administration and Progress*, 1903, pp. 178-79).

9. Cottage Industries and a 'Closed' Economy.

In an authoritarian regime with a 'closed' economy we may choose between hand-power and machine-power. When there is free competition between machine-made and hand-made goods, cottage industries tend to be destroyed. But when there is no foreign competition, we may pull down all mills and factories, and plan production on the basis of the *charkha* alone.

Mahatma Gandhi's opposition to mills is unbending and uncompromising. He has no difficulty in visualising, given the will of the nation, the *charkha* living when the last cotton mill has closed down.

Cottage industries are advocated both on economic and spiritual grounds. Here we are concerned with the economic argument alone.

An eminent economist, Mr. Manu Subhedar, says :

"It is my belief that in the course of the next ten years the production of handicrafts in India could be increased twenty times over what it is to-day. This is the method of increasing the livelihood of millions of people and improving their life in every direction. The capital resources required in such progress would be relatively less, and what is more important, the bulk of the equipment necessary could be produced in India itself."†

The Bombay Plan would have achieved a very great deal indeed if it trebled India's national income through industrialisation with modern machines in 15 years. If the output of cottage industries can be increased 20-fold within 10 years, our vote is for cottage industries. Cottage industries can be developed without 'created money', and without importing tools and equipment from foreign countries. At the moment of writing (June, 1944) it is suspected that Britain wants to repudiate her sterling debt to India. The sterling securities will be of little use in a *charkha* economy. We may as well hand them back to Britain.

Is it possible to increase the output of hand-industries twenty times within 10 years?

† *'Indian Sociologist'*, Bombay, June 1944, p. 40.

10. Hand-workers required for a 20-fold Increase in Output.

Out of a population of 352·9 millions in 1931, 153·9 millions, or 44 per cent, were workers. Assuming a population of 40 crores at the present time, the number of workers would be about 18 crores.

The proportion of workers engaged in industry may be taken as 10 per cent, of whom approximately 1 per cent are employed in organised industry, and 9 per cent are hand-workers. We have thus 162 lakhs of hand-workers out of a total of 1800 lakhs.

Let us take the *charkha* as typical of the implements used by hand-workers. If the hand-worker today is doing his best (as he is under the stimulus of war profits), to double the output two men will be required in the place of one. To bring about a 20-fold increase in output, the labour force must be increased 20 times; or the number of workers must rise from 162 lakhs to 3240 lakhs (162 × 20). And we have only 1800 lakhs of workers!

Assuming a 50 per cent increase in the efficiency of hand-workers, to increase their output 20 times a labour force of 24,30 lakhs would be required.

Even if the whole natural increase in the number of workers over a period of 10 years were diverted to handicrafts; even if labour were completely withdrawn from agriculture and other employments and devoted to handicrafts, the output of hand-workers could not be increased twenty times.

11. Productivity of Machines.

But give a hand-spinner a *charkha* with a spindle revolving twenty times faster and he will produce 20 times more yarn than before.

In mechanical spinning a worker with two assistants can easily manage two machines, each with 1200 spindles. Ignoring the greater speed of the machine spindle, the productivity of the machine is thus 800 times greater than that of the *charkha*, or three men working with machines will produce as much yarn as 2,400 men plying the *charkha*.

The German economist Gustav Schmoller gave some interesting examples of the increase in productive power due to machines in the course of a lecture delivered in 1903. The subject of his discourse was "The machine age and its

relation to human welfare and the organisation of social economy."

He estimated that in the year 1750, 9 million German workers worked with as many units of power in the shape of animals, wind-mills and water power, whereas in 1895, 26 million workers in Germany were using a volume of animal and mechanical power 6-10 times greater.

It has been estimated that in 1855 a single worker in the flour-milling industry had a productivity equal to that of 144 workers in Homer's time. In the iron and steel industry productivity is estimated to have increased, during 300 years, in the proportion of 1 : 30; in the cotton mill industry productivity of labour increased in the proportion of 1 : 700 between 1769 and 1855.*

Is labour engaged in hand-work more productive than agricultural labour? We do not know. Under machine competition the cottage worker, leaving his craft, swells the number of agricultural workers. That would suggest a lower productivity for the cottage worker, for he would not give up his occupation unless he could earn more as an agricultural worker. But let us, for the sake of argument, assume that the productivity of the cottage worker is, on an average, 1·5 times that of the agricultural worker.

A machine worker may, in some cases, show a productivity several hundred times greater than that of the hand-worker; in most cases his advantage would be considerably less. Let us assume that, on an average, the productivity of a machine worker is 4 times greater than that of the hand-worker. We have thus the following proportions originally:

Agriculture		Hand-work		Machine work
1	:	1·5	:	6

These figures very probably over-estimate the productivity of hand-work as compared with agriculture and underestimate the productivity of machine-work as compared with hand-work.

12. Effect of diversion of Labour to Cottage Industries.

Assume a stationary population of 1800 lakhs of workers, of whom 75 per cent (1350 lakhs) are employed in agriculture,

* *Ueber das Maschinenzeitalter usw.* by G. Schmoller (Berlin, 1903), p. 13.

9 per cent (162 lakhs) in hand industries and 1 per cent (18 lakhs) in factory industries. Assume further that there is surplus labour in agriculture amounting to 15 per cent of the total number of workers, or that a fall in the proportion of agricultural workers from 75 per cent to 60 per cent would not reduce the output of agriculture (*i.e.*, the productivity of agricultural workers increases by 25 per cent). 270 lakhs of workers are withdrawn from agriculture and added to the force of artisans or handicraftsmen ; there is no change in the number of factory workers. What is the increase in real income ?

	1945		1960	
	No. of workers. Lakhs	Output. lakh units.	No. of workers Lakhs	Output Lakh units
Agriculture	1350	1350 x	1080	1350 x (1080 × 1·25)
Handicrafts	162	243 x	432	648 x (432 × 1·5)
Factory industries	18	108 x	18	108 x (18 × 6)
Total	1701 x			2106 x

The diversion of 270 lakh workers from agriculture to handicrafts increases real income by about 24 per cent, assuming that the output per worker in agriculture is 1·25 x, in handicrafts 1·5 x, and in factory industries 6 x.

Next suppose that the surplus agricultural labour finds employment, not in handicrafts but factory production. The proportion of agricultural workers falls from 75% to 60% without any reduction in the output of agriculture ; the proportion of hand-workers remains unchanged, while that of factory workers rises from 1% to 16%.

	No. of workers. Lakhs	Output, lakh units
Agriculture ...	1080	1350 x (1080 × 1·25)
Handicrafts ...	162	243 x (162 × 1·5)
Factory industries ...	288	1728 x (288 × 6)
Total		3321 x

Real income will increase by 95% as compared with 1945 (1701 lakh units).

Finally, suppose that labour is diverted to factory industries not only from agriculture but also from handicrafts. If the number of hand-workers fell from 162 lakhs to 18 lakhs (from 9% of the total number of workers to 1%), and the number of factory workers increased to 432 lakhs (from 1% to 24%), the increase in real income will be as shown below:

	Lakh units
Agriculture (1080 × 1·25)	= 1350 x
Handicrafts (18 × 1·5)	= 27 x
Factory industries (432 × 6)	= 2592 x
Total	3969 x

The real income of the community has increased by 133⅓ per cent, or 2⅓ times.

Actually the increase in real income may be greater still, for the expansion of large-scale industry would bring the law of increasing returns into operation.

Our figures are imaginary but, they illustrate a principle which is in operation throughout the world. Industriailisation, as is again clear, increases national income by diverting capital and labour from less productive to more productive employments. From the national point of view there is waste of labour when in any industry ten men, working with primitive tools, produce goods which might be produced by one man working with modern appliances. This is an argument for developing factory production in all cases where machines lighten man's labour and increase productive power. Where there is no competition between man and machines, or where hand-work may usefully supplement machine work, there is scope for the dovelopment of handicrafts.

CHAPTER X

THE ROLE OF MONEY IN A PLANNED ECONOMY

The objection to created money in the Bombay Plan is due to a misunderstanding of the role of money in a planned system, which is different in essential respects from the role of money under *laissez faire.*

1. The Gold Standard Game.

Our idea of money is that of commodity money. Let us go back to 1844 when the Bank Charter Act was passed in England. The principle underlying that Act was that a paper currency should fluctuate like a gold currency. The Bank of England note represented a fixed quantity of gold, and the object of the framers of the Act was to ensure that British money should be always securely tied to gold.

The rapid growth of British trade and industry after 1850 was made possible by the development of bank credit. But bank credit is itself founded on gold. In 1931 came the abandonment of the gold standard by England. The Bank of England note ceased to represent an immutable weight of gold. But the role of gold as the basis of the currency system has not changed. The ghosts of Peel and Overstone may still regard the situation with satisfaction, not unmingled with doubt—for forms of money have changed since their time.

When money is commodity money, to have more money you must have more of the commodity of which money is composed, or which forms the foundation of the currency system. A country without gold mines must import gold by exporting commodities or services. And if the world is not keen to buy what it sells, it must get along with such stocks of gold as it possesses. Should an adverse balance of trade reduce the gold stocks, the golden calf may be thinned, or the reserve ratio may be lowered, but there are limits to that process.

The reader knows the rules of the gold standard game. Assuming a certain level of international gold prices, gold flows into a country when its prices are such as to make it a good market to buy in and a bad market to sell in; gold will flow out when its prices have risen above the world level, which would discourage exports and encourage imports. If a country bottles up imported gold, it is not playing fair; if a serious loss of monetary gold is not met by heavy deflation, there is danger of financial and economic collapse.

2. Gold in Germany.

In the year 1932 the value of gold and foreign assets held by the Reichsbank of Germany and other German banks was 887 million RM, which figure sank to 66 million RM in 1936. In 1937 the amount rose to 71 million RM (a little over £ 3½ million) and it was maintained at that level till 1940. During the same period (1932-1940) the gold reserves of the United States rose from 4000 million dollars to 21,995 million dollars.

During the reconstruction period (1933-38) Germany had a negligible amount of gold. The role of gold in German recovery was of no importance.

3. Money in Russia.

The gold reserve of U.S.S.R. rose from 147 million gold dollars (1·50463g fine) in 1929 to 439 million gold dollars in 1934, and thereafter fell to 225 million gold dollars in 1936. Between 1928 and 1936 the currency circulation (notes and coins) increased 5 times in Russia. It is probable that the note circulation increased more rapidly after 1936, but statistics of gold reserves and currency circulation are not available for later years.

Planning industrialised Russia, but, as in Germany, the role of gold in Russian planning was of no importance. The Russian Plans were largely financed with paper money created by the State. This paper money was inconvertible. The charter of the State Bank requires a 25 per cent firm cover for the currency circulation, but in 1932 the State Bank ceased to pay heed to this requirement.* Even without any gold cover, Soviet currency, it was claimed by Stalin, was the most stable currency in the world. It was

* *Soviet Labour and Industry* by L. E. Hubbard (Macmillan 1942) P. 245 *n*.

backed by goods and the capital enterprises of the country. But the Soviet rouble could not be converted by selling Russian railways, docks, power stations and armament works to foreign powers. Soviet money was 'created money', or money created by the authority of the State.

4. 'State' Theory of Money.

In a sense all money is 'created money'. 'Money is a creature of law', wrote Knapp long ago. "The soul of currency is not in the material of the pieces but in the legal ordinances which regulate their use".*

We in India, particularly, should have no difficulty in understanding the meaning of Knapp. The mints were closed to the free coinage of silver in 1893 and the rupee became a token coin. The State conferred a value on the rupee above its intrinsic value, and has maintained it. Thus the rupee that we have been using for over 50 years is 'created money'. It was convertible under the gold exchange standard into a fixed quantity of gold for foreign payments, but this convertibility meant little to the ordinary holder of currency.

The difference between a token rupee and a paper note convertible into token rupees is entirely without significance. The rupee is a note printed on silver. Both are inconvertible from the point of view of the ordinary holder. Both are 'created money'. When the gold bullion standard comes, even token rupees will disappear and the currency will consist entirely of paper money convertible into gold, in practice, for foreign payments only.

5. Stability of Soviet Currency.

In emphasizing the stability of Soviet currency Stalin is reported to have once 'profoundly' observed (as Hubbard puts it): "Is it not a fact that with this currency we built Magnitostroi, Dnieprostroi, the Stalingrad and Kharkov tractor works, the Gorki and Moscow automobile works, hundreds of thousands of collective farms and thousands of State farms"?†

How did the paper rouble build the capital enterprises of Russia? Labour and raw materials were there. 'Created money' set the productive forces of the country in motion.

* *'The State Theory of Money'* by G. Knapp (Macmillan, 1924), Chapter I.

† Quoted by Hubbard, loc. cit, p. 244.

Under the old system Russia could not have been rapidly industrialised without a stream of gold flowing into the country from abroad in the shape of loans and payment for surplus exports. This gold would have been piled up in the vaults of the State Bank, and paper money issued against it. The difference between the old and the new system is that Russian paper money is now backed by the authority of the State; the piling up of gold in reserves has been dispensed with.

That created money achieved its object in Russia is unquestionable. It is like a drowning man pulling himself ashore by seizing his own hair—a miracle which, so far, has not happened. Russian industrialisation is a miracle that has happened.

The same miracle, in a more refined form, was repeated in Germany. Germany, as we shall presently see, also owes her recovery to 'created money'. It is obvious that in a planned economy, created money can perform miracles the contemplation of which is impossible under *laissez faire.*

6. Pre-Financing of Output.

From the point of view of the individual holder, whether in India, or Russia, or Germany, money is wealth. A 'moneyed' man is a rich man. From the point of view of the State in a planned economy, money is a means of setting people to work and exploiting the natural resources of the country. Is there unemployed labour in India? Is there unexploited, or not fully exploited, agricultural and mineral wealth in India? If so, industrialisation is possible, for the means of setting the productive forces in motion can be provided by the State. Created money can finance new enterprises. Technically this is known as pre-financing of output. Ordinarily growth of production necessitates the creation of more money. In pre-financing, money is created in anticipation of increased production.

7. The *Laissez Faire* View of Money.

The State, in a planned economy, uses money as a powerful mobilising agent with the object of increasing production and securing 'full employment'. The *laissez faire* State, on the other hand, is neutral in regard to money. This point of view found expression in the late Dr. Alfred Marshall's evidence before the Indian Currency Committtte of 1898 :

"Q. 11,791. Before leaving that branch of the subject, will you say whether you regard the maintenance of the rupee at 1*s.* 4*d.* as equitable, and, at the same time, do you regard it specially as a tax upon trade ?—The function of a legislator as regards currency is to do as little as possible. Almost any currency of which the position is certain will do its work fairly well. Frequent changes in its basis disturb expectation, upset reasonable calculations, and infuse a spirit of unrest into business. They may all aim at increased certainty, but their effect must on the balance be increased uncertainty. They resemble the frequent wakings of a patient to administer sleeping draughts. It was, therefore, with much doubt and difficulty that I brought myself to think that it was right to close the mints in 1893. But some of the strongest arguments against closing them are now arguments against reopening them, and against acquiescing in any other arrangement than a 1s. 4d. rupee."*

Dr. Marshall's meaning is clear. We may have the silver standard or the gold standard. The important thing is that the monetary system should be stable and certain, requiring the minimum of interference on the part of the authorities.

From this point of view the gold currency standard is the best. It works automatically, the legislator doing as little as possible. The supply of money adjusts itself to the demand through the inflow and outflow of gold, determined chiefly by trade conditions.

The gold currency standard is dead, and managed currency systems are no longer regarded with disfavour. But still there is no faith in a currency without adequate gold cover. And such a currency will not work in a regime of free competition and free exports and imports. But set up a planned economy with thorough-going State-control of all aspects of economic life, and the situation fundamentally alters. The rules of the gold standard game no longer apply and money acquires a new dignity and a new power.

8. Danger of Inflation.

The reader may say : "Admitting that under State-controlled capitalism money acquires a new power, is there no danger of inflation when money has no gold backing ?"

The answer is both 'Yes' and 'No'.

* **Minutes of Evidence, Part II, p. 175.**

At the present time the gold backing of our created money is of no importance and, as we have seen, between Sept. 1941 and Sept. 1943 the relation between note circulation (x) and wholesale prices (y) was governed by the law :

$$y = 198{\cdot}33 - {\cdot}3419x + {\cdot}0007315x^2$$

Put $x = 4000$ crores. What is y ?

$$y = 189{\cdot}33 - 4000 \times {\cdot}3419 + {\cdot}0007315 \times (4000)^2$$
$$= 189{\cdot}33 - 1368 + 11704 = 10{,}525.$$

The meaning is that whatever cost Rs. 100 in July 1914, or August, 1939 (the wholesale price index was equal to 100) would cost Rs. 10,525 when the note circulation amounted to 4,000 crores—or prices would rise a little over 100 times. We assume that price control is not more effective than it was during the period Sept. 1941 to Sept. 1943.

The consequences of a hundred-fold rise of prices can be easily imagined. About a ten-fold rise in the price of rice caused about a million deaths by starvation in Bengal in 1943, and several million deaths from diseases which follow in the wake of famine. A hundred-fold rise of prices might account for about half the population of India !

It is this danger that the critics of the Bombay Plan have in view when they condemn the Plan as 'reconstruction through inflation'.

9. The Case of the United Kingdom.

Sometime ago the United Kingdom was spending daily about £12 millions ; the figure may be higher at present. A daily expenditure of £12 millions is equal to a little over Rs. 5,000 crores in a year. The total estimated cost of the Bombay Plan is Rs. 10,000 crores. The British Government spends in two years what we propose to spend over a period of 15 years. Have prices risen in the United Kingdom ? Yes, but not considerably, and the rise in the cost of living is lower still (22 per cent on Dec. 1, 1943 as compared with Sept. 1, 1943). War expenditure amounting to a sum far exceeding Rs. 10,000 crores has been financed without any inflationary rise of prices. A 22 per cent rise in the cost of living is practically negligible.

Britain's war economy may be correctly described as totalitarianism. The regime of free competition has ended. The sovereignty of the consumer is gone. The State has taken over the control and direction of the whole of economic life. Profits, wages, investment, the foreign exchanges,

exports and imports are all under State control. The State is regulating directly and effectively both production and distribution. The supplies of all essential commodities are rationed at fixed prices. Under such conditions 'created money' diverts the resources of a country in men and material from ordinary to special purposes without any inflationary rise of prices. There is a huge increase in Government disbursements. But compulsory saving is enforced; the increased purchasing power of the people is not permitted to be exercised. Assuming that all production is controlled by Government, and there is rationing, prices will be such as Government desire. The resources set free by 'forced saving' may be utilised for unproductive war purposes.

10. Created Money under Full Employment.

What we have said above is not a matter of theory. It is what is actually seen. Assuming a state of 'full employment', that is, a condition of things in which all factors of production are being fully utilised, 'created money' will divert resources to unproductive war purposes without the 'inflationary spiral' coming into operation. Under a system of rigorous Government control and rationing the talk of inflation is irrelevant. What is true of *laissez faire* is not true of State-controlled capitalism or an authoritarian *regime*. In the words of a foreign writer, we must not smuggle the rules of one game into the playing of a different game altogether.*

What is the extent to which the resources of a country may be diverted to war purposes through 'created money'? Not to any extent desired by Government, but to the extent that saving is possible. A war is waged with real goods, and men of flesh and blood. If more and more of men and material are diverted to war purposes, less and less are available for civilian use. The quantity of rations cannot be unduly reduced without endangering health. There is a limit beyond which consumption cannot be cut down. So long as that limit is not reached, so long as saving is physically possible, increase in Government expenditure, combined with a rigorous system of over-all controls, will enable war to be waged more and more effectively.

What is true of actual war is also true of a period of preparation for war. In regard to the financing of armaments

*** W. A for July 1939, p. 5* (Review of Dr. Guillebaud's book by Prof. J. Pedersen.)**

through credit money (a form of 'created money', as we shall presently see) in Germany, Dr. Schacht, Governor of the Reichsbank, is reported to have stated in Nov. 1938 that "the credit money made available for the armaments programme produced a demand for consumption in so far as it was paid out in the form of wages and salaries. But the armament manufacturers delivered goods which were produced but not consumed. Care must be taken, said Dr. Schacht, that in addition to armament production, a volutme of consumption was produced sufficient for the needs of the population, and secondly, the less that was consumed, the greater the number of workers that could be allotted to armament. This, however, meant greater consumption and consequently increased labour requirements. "The less I consume, the more I save, and the more I save the more I can spend on armaments."*

Let us represent armaments by guns, and consumption by butter. Then in financing re-armament by means of created money a country is confronted with the choice : guns *versus* butter. More guns mean less butter and more butter, less guns. When more guns are produced, payments are made to labour and other factors engaged in their production. Goods are produced, but they are not for consumption; on the other hand, increased Government disbursements will increase the demand for butter by increasing the purchasing power of the factors concerned. But if it is decided not to increase the quantity of butter, then it must be rationed at a fixed price. Secondly, it is also obvious that the less a community consumes, the more can it spend on guns or armaments.

11. Peace-time Reconstruction.

The Bombay Plan is not a plan to finance war or armaments but peace-time reconstruction. Still, expenditure on such objects as education and public health is not immediately productive, though it is so in the long run. Dr. Shcacht's warning cannot be ignored.

Suppose we spend 1,000 crores on abolishing illiteracy and an equal sum on improving public health in the shape of free treatment in hospitals and free medical advice and medicines. Teachers and others who benefit by Government disbursements

† J. R. S. S. 1939 Part II, p. 210.

are enabled to consume more, but their increased purchasing power is not balanced by increased production of consumers' goods, and, in the absence of price control and rationing, prices must rise.

The same is true in a more limited sense of expenditure on capital works such as power stations, machine making, ship building, etc. Large sums are disbursed on account of wages and other payments when construction is proceeding, but goods will begin to move into consumption at the end of several years. There is always a time-interval, short or long, between investment and the consequent increase in the volume of physical production. The longer the interval, the greater the posibility of a rise of prices during the interval.

And that is why financing production with created money presupposes an authoritarian regime But given such a regime, or effective control of all aspects of economic life, internal and external, peace-time reconstruction with created money is not reconstruction through inflation. Why ? Because there is no inflationary rise of prices.

Even when Britain is spending over Rs. 5,000 crores annually on the war, the rise in the cost of living is practically negligible. Just assume that, other things being equal, this expenditure were incurred, not on account of guns, but butter. Why, there would be so much butter that the British people would not know what to do with it. In other words, increase in the supply of all kinds of consumers' goods will bring down prices. The increase in the quantity of circulation would be more than balanced by the increase in the supply of goods. Created money would then be money created in anticipation of production. This is what has been mentioned before as pre-financing of output.

12. The Case of U.S.S.R.

We imagine the reader as saying : "What about Russia ? Russia was a 'closed' economy and the Russian regime authoritarian. And yet prices rose in Russia."

There is no doubt at all that Russian industrialisation was financed by paper money and that the rouble depreciated heavily between 1928 and 1939. The cost of specified quantities of 15 food articles in 1927-28, just before the inauguration of the First Five Year Plan, is estimated at 145·45 roubles; it had risen to 1433·49 roubles in Moscow in

1939.* The price of food as well as clothing rose more than wages during the period. During the planning period Russia was no workers' paradise. Probably the standard of living of the average industrial worker in Russia was not much higher than that of an average industrial worker in Bombay. Sir Walter Citrine has estimated that the purchasing power of the British worker was approximately four times greater in 1937 than that of the average Russian worker.†

The explanation is to be sought in the choice between guns and butter. Stalin chose guns, and the average Soviet citizen had perforce less butter.

Planning in Russia deliberately neglected 'light' as compared with 'heavy' industry. In all branches of textile industry, the manufacture of boots and shoes, furniture and other articles of daily use in the household, the achievements fell far short of the First Five Year Plan. For example, it was planned to increase the production of cotton goods, which are the chief articles of clothing in Russia, from 2742 million metres before 1926 to 4700 million metres, or by 70 per cent. Production increased in the first year of the Plan, then it declined. In 1932 it increased again, but the quality deteriorated. According to Prof. Leontief, the population of Russia in regard to clothing was worse off than before the last world war. "This is explained by the fact that this industry was neglected for the sake of 'heavy' industry ; besides there was a lack of raw material, which they did not wish to import from abroad, since imports were restricted to material required for industrialisation."‡

The scarcity of articles of food was felt throughout the First Five Year Plan period. As compared with 'heavy' industry 'light' industry and industries producing articles of food had been set easier tasks in the Plan, and yet less success was attained in their case.

The Birmingham Bureau of Research on Russian economic conditions thus sums up its conclusions:

"The available statistics show that during the years of the First and Second Five Years Plans significant progress in

* See *Soviet Labour and Industry* by L. E. Hubbard, p. 187 (Macmillan, 1942).

† See *Marxism is Dead* by Brij Narain, Chapter V (Lahore, Rama Krishna, 1939).

‡ W. A. May, 1934, p. 526.

capital construction was made and that the reproductive capacity of industry was greatly increased. Expansion and restoration was particularly remarkable in the case of electrical industry, machine building and metal industry, heavy and light metallurgy, and chemical industries. It was considerably less in the case of light industry, and of cotton textiles, linen, silk and wool in particular."*

It should not be forgotten that by 1936 a money economy had been fully re-established in Russia. The card system was abolished, payments in kind were eliminated, and two or three sets of prices which existed before disappeared as the monetary ystem developed. Under such conditions scarcity of consumers' goods must raise their prices.

It is now clear to every one that Russia, professedly a peace-loving nation, was all the time feverishly preparing for war to regain lost territory, like any other Imperialist Power. No modern war can be successfully waged without a highly developed industrial system, and for the sake of rapid industrialisation the Soviet regime imposed heavy sacrifices on the Russian people.

Created money achieved its purpose in the Soviet Union. It abolished unemployment and illiteracy, and it has given Russia a leading place in the industrial countries of the world. These are great achievements. 'Planning without tears is almost an impossibility.' The Russian people made the sacrifices demanded of them. Where would Russia be today if she had relied on orthodox methods of finance ?

13. Our Case.

Our case is slighty different from that of Russia in certain respects, and similar in other respects. Like Russia we start, not with 'full employment' but with large unemployed or partially employed resources. Like Russia our country is rich enough to have a 'closed' self-sufficient economy. But we have a denser population. This is an advantage in so far as it represents an enormous potential demand for the products of industry. Unlike Russia we have no foreign conquests to make, and having no desire to impress the world with our achievements, we may remain unaffected by

* *'Results of the Second Five Year, Plan and the Project of the Third Five Year Plan'* issued by the Russian Dept. of the University of Birmingham in July 1939, see p. 2.

megalomania in construction which according to M. Molotov, became 'a positive obsession' with a number of Russian executives. "There are many instances of cases," said M. Molotov in his Report on the Third Five Year Plan, "where we embarked upon the construction of gigantic projects, sank a lot of money into those schemes, but their completion dragged out interminably."* While paying more attention to heavy industry we need not neglect light industry. Fortunately our masses know few luxuries and comforts; their wants are few. Even when we are building up a powerful heavy industry, adequate quantities of food and clothing may be provided. No one need die of starvation because of planning. It is not the rural masses but the middle classes living in towns who would be called upon to make the heaviest sacrifices.

Assume now that with created money we finance not armament production, nor schemes of public education and health, but industries whose products will, with more or less delay, move into consumption. Assume also that we have so far improved, extended and perfected the organisation created for diverting resources to war purposes, that the production and distribution of all essential goods and services takes place under Government control. Assume further that the machinery of control is running smoothly, and that the Central Government enjoys the willing co-operation of all sections of the public. Where is the risk of inflation ? The risk exists only in the imagination of critics who seem determined to discredit the Bombay Plan. Some of us were swept off our feet by the 'inflationary wave' in 1943 and have not yet succeeded in regaining our balance.

14. A Final Question.

There remains one final question about inflation :

"How, after Sir Jeremy Raisman has done his worst about inflation and soaked the country with paper currency up to saturation point, can the planners still 'create' money to the extent of Rs. 3,400 crores for their plan after the war, without adding considerably to the misery of millions" ?†

If Sir Jeremy Raisman is really determined to do his worst about inflation, (which no one believes), then India is

* See the brochure issued by the Russian Dept. of the University of Birmingham cited above, p. 7.

† *The Tribune* of Lahore, dated May 31, 1944.

destined to go through the German experience of the years 1922-24, or still worse. The circulation of paper money in Germany increased from 2,198 million Marks in Jan. 1913 to 123,938 million Marks in Jan. 1922, and 496,585,346 billion Marks in Dec. 1923. General prices rose from 1 in 1913 to 1262 milliard in Dec. 1923. At present our prices are, on an average, 3·4 times higher than in 1939. Is Sir Jeremy Raisman determined to raise them 1200 milliard times before the war ends?

Doing one's worst about inflation has no meaning, for it is always possible to do worse still. Paper money is easy to print and it has no intrinsic value. The purchasing power of the German Mark in Dec. 1923 sank to 1/1,262,000,000,000 of what it was in 1913. But it could have been brought down lower still.

The inflation of the post-war period subjected the German people to great hardship, but it did not destroy the whole population. In a few years the economic machine was functioning normally again, and in 1933 the First Four Year Plan was inaugurated.

Assume that a National Government is in power at the end of the war. If Sir Jeremy Raisman leaves the country in a state of economic anarchy, a few years will be needed to restore order. But even doing his worst about inflation Sir Jeremy Raisman cannot end planning for ever; he can only postpone it for a certain period, short or long. There are other more effective and far easier methods of wrecking the Bombay Plan than soaking the country with paper currency up to saturation point.

CHAPTER XI

NOTES *versus* BILLS

OR

STATE CREDIT *versus* BANK CREDIT

We may view 'created money', so far as it may be used for financing the production of material goods moving into consumption, without fear and misgiving.

But there are two forms of "created money', of which only one, the cruder form, is mentioned in the Bombay Plan—Reserve Bank notes issued against *ad hoc* Government securities. This was the 'created money' used in Russia. There is a more refined form of 'created money'—bank credit or bills. Russia chose notes; Germany preferred bills. The Russian experiment is known to the authors of the Bombay Plan and the country generally. The German experiment has passed unnoticed in India. And yet it is an experiment which demands attention. Its meaning for us is that if we only reconstruct our banking system, we may industrialise India without running the risk of a rise of prices such as is feared, or such as actually took place in Russia.

1. The German Experiment.

When reconstruction began in Germany, her economic situation was desperate. Between 1925 and 1932, while agricultural production had increased, agricultural income had fallen by one-third. Industrial unemployment had assumed gigantic proportions. And Germany had very little gold.

The entire economic life of Germany was reconstructed, unemployment was practically abolished and a huge programme of public works, not to speak of re-armament, was carried out by means of bills. The story is fascinating.

The control of production, prices and wages was an essential part of the German Four Year Plan adopted in 1933. To help peasants, whose debts amounted to 11·4 milliard *RM* in 1932, taxes were lowered and farm relief organised. But the most important agricultural measures were those which

ended the free play of supply and demand in the determination of prices.

The Law of 15th July, 1933 made provision for the compulsory cartellisation of agriculture (*Einrichtung von Zwangskartellen*). An Empire Food Organisation (*Reichanaehrstand*) was established and agricultural chambers of commerce and other societies were linked with it. All growers and traders concerned with agricultural products were organised into associations. In 1934 a new organisation concerned with food-grains was created (*Hauptvereinigung der deutsche Getreidewirtschaft*) which controlled the activities of 19 regional associations set up in the country. These associations were unions of businesses dealing in food-grains from their production to sale in the form of bread. Speculation was suppressed with a strong hand. Dr. Hoevel,* writing in 1935, says:

"Prices are no longer determined by demand and supply but regulated by the State, and the whole German food economy is under the control of compulsory syndicates" (*Zwangssyndikaten*).

Guillebaud notes that as a result of these measures "there was a great increase in the purchasing power of the agricultural section of the community, the net receipts of farmers rising from 300 million *RM* in 1932-33 to 2 milliard *RM* in 1934-35."†

As in the United States, a huge public works programme was undertaken to reduce unemployment. "*Woher kommt das Geld*" (Where does the money come from ?) asks Dr. Hoevel.‡

There were three ordinary sources of finance:

1. New savings.
2. Taxes.
3. The capital market.

The utilisation of these sources, says Dr. Hoevel, would not have led to the desired goal. The only way out was the expansion of credit (*Kreditausweiterang der einzige Weg*).

* An admirably clear and well-documented account of the system set up in Germany in 1933 is given by Dr Paul Hoevel in *Grundfragen deutscher Wirtschaftspolitik*, Berlin, 1935. See Pp. 92-96.
† Guillebaud, loc. cit. P. 59.
‡ Hoevel, loc. cit. P. 60.

The State issued Treasury bills (*Reichsschatzwechsel*) for which a maximum limit was fixed. These bills never appeared in the market, but only served as cover. New enterprises were financed through 'employment bills' (*Arbeitbeschaffungswechsel*) put out by a special financing institution, *Deutsche Gesellschaft fuer Oeffentliche Arbeiten. A. G.* (Oeffa for short). These employment bills were discounted by the banks and re-discounted by the Reichsbank. The creation of credit instruments of an enormous amount, behind which there was no gold but only the credit of the State, was regarded with mistrust in wide circles. But Dr. Hoevel reminds the critics that the 'Miracle of the Rentenmark' was at bottom nothing else except the creation of credit by the authority of the State. The security behind the Rentenmark was pure fiction (*eine reine Fiktion*), and yet the Rentenmark operated without friction. The miracle happened once more. The new money created enterprises, set people to work and raised wages and incomes.

2. Pre-financing of Output.

Dr. Hoevel proceeds:

"In itself the creation of credit through the creation of new purchasing power does not add to the existing supply of income-yielding property, or the supply of indirect or direct goods. But the expansion of credit has a capital-building effect as it enables the existing goods to be better utilised. And just this building of new capital makes it possible for the new credit to liquidate itself. When it is stated that capital represents past labour (*vorgetane Arbeit*), the converse is also true: credit creation represents future labour (*nachgetane Arbeit*)".*

Further, such creation of new purchasing power does not lead to the evils associated with inflation as increase in the supply of money is balanced by increase in the volume of production. Dr. Hoevel continues:

"John Law's celebrated maxim: 'C'est au Souverain à donne le crédit et non à le recevoir'† leads to disaster, as credit expansion remains uncontrolled, and for that reason

* Hoevel, loc. cit. P. 64.
† The King is to grant credit, not to receive it.

loses all relation to value creation. There is no risk of disaster when the amount of new purchasing power created is based upon and limited by the future production of goods."*

3. Success of the German Experiment.

These measures achieved their purpose. Dr. Guillebaud says:

"By the autumn of 1936 the success of the First Four Year Plan was no longer in doubt. Unemployment had ceased to be a serious problem, and there was practically full employment in the building and engineering industries... Recovery was no longer on paper; it was for every body to see."†

German national income rose from 45 millard *RM* in 1932-33 to 68 milliard in 1937-38; the gross revenue of the Government during the same period rose from about 66½ milliard *RM* to 135 milliard; the general index of production rose from 100 in 1932 to 220·6 in June, 1937, and the number of the employed increased from 12·49 millions in 1932 to 18·50 millions in 1937. According to the 'Statistical Year Book of the League of Nations', the number of the registered unemployed fell from 5·58 millions in 1932 to ·91 million in 1937 and to ·09 million in 1939.

4. Reconstruction through Bills.

This remarkable progress was achieved with increase in note circulation from 3560 million *RM* in 1932 to 5493 millions in 1937, an increase of 54·2 per cent. The increase is not remarkable considering that during the same period the note circulation increased in the United Kingdom by 35·3 per cent, and in the United States by 59 per cent.

German economy was re-constructed, not through the agency of notes but bills.

Between 1932 and 1937 the total of bills held by the Reichsbank and discounted by commercial banks rose from 6156 million *RM* to 13,849 millions. Of special significance are figures of discounts by commercial banks. These rose from 3349 million *RM* in 1932 to 7717 million *RM* in 1937, an increase of 130·4 per cent. The amount of gold and foreign exchange held by the Reichsbank in 1937 was less than £4,000,000. The role of gold in German recovery, as has been stated before, was of no importance.

* Ibid, P. 65.

† Guillebaud, loc. cit., P. 101.

Prices, Wages and Cost of Living. The following statistics* show the movement of prices, wages and cost of living between 1932 and 1939 :—

Index Numbers, 1929=100

	Wholesale Prices			Cost of Living			Weekly wages
	Germany	U.S.A	U.K.	Germany	U.S.A.	U.K.	Germany
1932 ...	70·3	68·0	74·9	78·3	79·7	87·8	67
1933 ...	68·0	69·2	75·0	76·6	75·4	85·4	68
1934 ...	71·7	78·6	77·1	78·6	78·1	86·0	73
1935 ...	74·2	83·9	77·9	80·0	80·1	87·2	75
1936 ...	75·9	84·4	82·7	80·8	80·9	89·6	78
1937 ...	77·2	90·6	95·2	81·2	83·8	93·9	81
1938 ...	77·1	82·5	88·8	81·6	82·3	95·1	85
1939 ..	77·7	80·9	90·0	82·0	81·1	96·1	88

As is apparent from the figures given above, the growth of national income and Government revenue, the remarkable increase of production and the abolition of unemployment, were not accompanied by the slightest inflationary rise of prices, or other evils associated with inflation. A rise of 7 points in the index number of wholesale prices between 1932 and 1937 in Germany may be compared with a rise of about 13 points in U.S.A. and of 20 points in the United Kingdom. The rise in the cost of living was still less and real wages rose.

5. The question of Inflation.

Such are the facts of the German experiment. That it achieved its purpose is indisputable. There are two chief questions which have been debated in regard to the German system ; first, Is it a permanent system ? and second, Is there danger of inflation in the financing of reconstruction through bills ?

We may leave the first question undiscussed. The pre-financing of output was brought to an end in April, 1938. It was announced that as from 1st April, 1938, no new special bills would be issued, and that the finance of new investment must be met in future out of the tax revenue of the Government and long-term issues on the capital market. Our object

* *'Statistical Year-Book of the League of Nations.'* 1940-41. Table 100.

is to secure full employment of our resources. If pre-financing through bills enables us to realise our aim in 10, 15 or 20 years, we may then return to normal methods of financing new investments. The question of practical importance is not whether pre-financihg may be adopted as a permanent system but whether, as a temporary expedient, it will futfil its object.

As for inflation, we may repeat what we have said before —we have no right to smuggle the rules of the *laissez faire* game into the playing of an altogether different game.

Under *laissez faire* an increase in the quantity of circulation raises prices by increasing the demand for factors of production. The form of money is immaterial—it may be gold, currency notes or bills. Suppose the rate of interest is low, which encourages producers to borrow more and more. It is a matter of indifference whether they are accommodated in gold or currency notes, or are granted cash credits or over-draft facilities. In all three cases, competition among them in securing the requisite supplies of labour and raw materials with the purchasing power placed at their disposal, would force up wages and prices. The recognized symptoms of inflation will manifest themselves.

But under State-controlled capitalism, even under full employment, there is no danger of inflation. Why ? Because labour and raw materials are rationed at fixed prices and investment is under control. And so long as all the resources of a country are not fully employed, the danger of inflation is still more illusory. In India full employment may not be secured even after 20 years of planning.

6. Why Financing Reconstruction through Bills is a Superior Method.

There are two important points to note about the use of created money. First, money should be created to finance enterprises whose products will move into consumption. Money for raising the cultural level of the people or improving standards of public health must come out of savings. Secondly, enterprises should be financed, not by borrowing from the Reserve Bank against *ad hoc* securities, but by means of bills, or bank credit. This involves the setting up of special institutions for the purpose of accepting bills on behalf of Government.

Suppose a power station is to be built. The work will be entrusted to contractors who, as construction proceeds,

will accept the bills, which may now be rediscounted by any Scheduled bank. When the Scheduled bank needs cash, it gets the bills re-discounted by the Reserve Bank. This is all the technique of pre-financing through bills.

The Central bank alone can create cash, and it will issue more notes against *ad hoc* securities as need arises. But in pre-financing through bills, cash comes last of all, not first, and while it may be thought that the creation of bills of a given amount will necessitate the creation of cash of an equal amount, actually this does not happen. The note-issue, as the German experiment shows, is a fraction of the total amount of bills.

On an average the note circulation in Germany during the reconstruction period (1933-37) was one-fourth of the amount of bills held by the entire banking system.

Our created money at the present time is in the form of notes, and our total deposits are a fraction of the note circulation. To have deposits amounting to 4,000 crores we shall require a note circulation amounting to over 5,000 crores.

The difference between a currency note and a bill is important. A note is a medium of circulation, while a bill is created for a certain purpose. A bill is self-liquidating: when it matures it is paid off, or, when it has done its work, it disappears. This is not the the case with additions to the note circulation. It follows that there is less risk of inflation when reconstruction is financed through self-liquidating bills than with currency notes. This conclusion is supported by facts. There was a considerable rise of prices in Russia which chose the currency note as the instrument of finance, while the rise of prices was negligible in Germany, which chose bills.

7. Reconstruction of Banking.

The Memorandum on the Bombay Plan does not discuss banking reconstruction, relying as the Plan does for finance on borrowing from the Reserve Bank against *ad hoc* Government securities. Nor has banking reconstruction been mentioned in the discussion ot the Bombay Plan. And yet banking reconstruction is the first requirement of industrialisation. Central banking machinery provides means of carrying through a vast programme of reconstruction with the minimum of cash. This machinery exists in India in a rudimentary form ; it has to be adapted and improved so that it may be used for the required purpose.

(*i*) **Development of branch banking.** Attention has been already drawn to the inadequacy of banking facilities. To increase these facilities we may establish more independent banks, or develop branch banking. The view is generally accepted that fewer but larger banks, with numerous branches, make for strength. In India the situation, on a smaller scale, is not unlike that in the United States. We have a very small number of large banks and a relatively large number of small banks. Small banks cannot maintain many branches. To develop branch banking, legislation is needed which would, by encouraging bank amalgamations, reduce the number of banks. Such legislation was enacted in Japan in 1927, and it caused 500 smaller banks to disappear. The minimum capital requirement in regard to banks in different localities (town and *mofussil*) cannot be the same, but these requirements should be so framed as to substantially reduce the number of banks.

Government can assist the larger banks in opening new branches by means of subsidies.

If India is to be industrialised, it is of the utmost importance to mobilise for the purpose every single rupee that can be secured. It is only banks which can mobilise hoards; branches of banks must be established all over the country to attract savings. In the beginning some of the branches may not pay—hence the need for subsidies.

(*ii*) **Insurance of bank deposits.** Reference has been made in a preceding chapter (Vol. I, p. 252) to the insurance of bank deposits in the United States. This is a development of very great interest from our point of view.

Not all deposits are insured. The deposits of any one depositor in any one bank are insured only up to 5,000 dollars. It has been estimated that insurance covers about 43 per cent of the total deposits of the insured banks.

Insurance, it goes without saying, would be much more useful if it provided 100 per cent coverage. Homer Jones, writing in the *Economic Journal* for Dec. 1938, expressed the opinion that the cost of deposit insurance would be increased very little by the adoption of 100 per cent coverage.

Deposits are insured through the Federal Deposits Insurance Corporation. The Congress supplied part of the funds of this Corporation; for the rest the Congress provided that insured banks should pay to the Corporation a sum equal to 1/12th of one per cent of their total deposits. The funds of the Corporation were increasing before the war, as the

income of the Corporation exceeded its expenses and the losses it was called upon to make good.

Are deposits an insurable risk, or is there justification for deposit insurance from the actuarial point of view ? Perhaps not. The risk of death is insurable, for this risk at different ages can be estimated, with the help of mortality tables, with a reasonable degree of accuracy. But bank failures, or causes which bring them about, are uncertain. Still insurance of deposits is a good thing from two points of view—it gives security to the depositor and it helps to maintain the cheque circulation. In a banking crisis, deposits subject to cheque are liable to be withdrawn suddenly, forcing banks to recall their loans. This may start a general process of liquidation and intensify a depression.

Cheque circulation is comparatively of less importance in India today, but its importance will increase when industrialisation comes under such conditions as we contemplate (*i.e.*, by means of bank credit or bills). The insurance of bank deposits will make it known to one and all that Government was behind the banks. Even if 100 per cent coverage were not provided, the confidence of the public in banks would enormously increase if the deposits of any one depositor in any one bank were insured to the extent of, say, Rs. 5,000. Such a provision would protect almost all except the biggest depositors, and help to break the hoarding habit.

The essence of our suggestions is the abandonment of the *laissez faire* policy of the Government in regard to banking, and the adoption of a policy of active assistance in order to popularise modern banking and to make it as safe as possible.

(*iii*) **Scheduled banks' Investments.** For the whole year 1943-44 (average of Friday figures) advances and discounts by Scheduled banks represented 26·98 per cent of their total demand and time liabilities. It may be estimated that over 50 per cent of demand and time liabilities are invested by Scheduled banks in Government securities.

This proportion is unduly high. It is clear that if it were lower, our joint stock banks would be able to do more for industry.

Government securities are preferred to other means of investment on account of their greater liquidity.

Now bills accepted by special institutions created for the purpose would be equally liquid. These may be called Employment bills, as in Germany, or Industrial Bills, as they

would be issued in connection with new enterprises or the extension and development of old enterprises. The bills, having been accepted by an institution with Government credit behind it, would form as good an investment from the point of view of commercial banks as Government securities. They would be liquid as they could be rediscounted whenever desired at the Reserve Bank.

It may be expected that financing industrialisation through bills will substantially lower the proportion of investments by Sheduled banks in Government securities and raise the proportion of 'bills discounted', which is negligible at present (5,59 lakhs out of total deposits of 600 crores, or about 1 per cent).

(*iv*) **Relations of Scheduled banks with the Reserve Bank.** We have seen that at present our Central Bank, apart from relieving the Government of the responsibility of maintaining exchange, largely serves an ornamental purpose. Under the system we propose the Reserve Bank will be in close daily contact with the Scheduled banks as it will be constantly rediscounting their bills, and thus providing them with cash. No limits need be imposed on the provision of rediscount facilities, and there will be no limits imposed on the power of the Reserve Bank to create new money—so long as new money is required to finance productive enterprises. Under such a system, trade and industry will get all the finance they require. The difficulty of financing long-term industry with short-term deposits is largely overcome, as the Central Bank will readily assist a Scheduled bank in difficulties, by loans in special cases and ordinarily through the provision of rediscount facilities. Given a Central Bank which is the real backbone of the banking system, and not merely an ornament, and given a National Government, enjoying public trust, standing solidly behind the banking system, financing industrialisation through bills should achieve its aim. We are not talking of things which are possible only in theory. German recovery was financed by bills, and we may do what Germany did.

At present, as we have seen, very little use is made of bills in the financing of trade or industry. But our instrument of finance is special bills, accepted by unimpeachable authority and readily rediscountable, which would be an ideal investment from the point of view of bankers.

CHAPTER XII

ORTHODOX METHODS OF FINANCE

The Bombay Plan relies for finance mainly on 'created money'. Take away 'created money' and the Plan falls.

We accept 'created money' but would prefer bills to bank notes.

Is it not possible to industrialise India without 'created money'?

If orthodox methods of finance are to be employed, it is of great importance to know the future trend of commercial bank deposits. Will deposits continue to expand as at present, or will they tend to contract? Of our hoarded wealth not more than three or four hundred crores may become available for investment. As we have seen, the balance of trade is an uncertain factor, and it may provide nothing at all. The Bombay Plan proposes to raise Rs. 800 crores by loans abroad. But foreign capital creates political difficulties, and it would be desirable to do without it. Orthodox methods of finance must, therefore, rely on genuine savings of the people, not savings due to created money.

1. The Shape of Things to Come.

The Chairman of the Board of Directors of the Punjab National Bank, in the course of a speech delivered on 6th April, 1944, at the ordinary general meeting of the shareholders, said :

"There appears to be a wide-spread belief that once the War is over the country will see not only the end of inflation but ushering in of the active process of deflation. This would inevitably result in vast contraction of currency, fall of prices, wages and profits and naturally give a set-back to the trade activity and industrial expansion that we are witnessing today owing to War conditions. The banks will be faced with decrease in deposits, decrease in amounts of bills offered for discount and smaller amounts of money wanted as loans

and advances. The natural corollary of this would be a reduction in banks' holdings of Government securities, both short-dated and long-dated. Even the consumer who has saved some money and put it in the bank, will be tempted to withdraw it after the War and utilize it for satisfying his need by the purchase of commodities of which he may be starving himself at present.

"Such is the layman's gloomy picture of the things to come when the War is over. I do not share this pessimism and, I believe, some of the assumptions on which this view is based, will not hold water in the light of a cold study of facts and figures."

The layman can also quote facts and figures in support of his point of view. The addition to circulation during 5 years, from 1914-15 to 1918-19, amounted to about 200 crores of rupees and the net absorption of currency in 1919-20 was about $42\frac{1}{2}$ crores. Then deflation began, and during 11 years, from 1920-21 to 1930-31, the net absorption of rupees was − 112,43 lakhs, of notes 5,15 lakhs, and of small coins + 1,17 lakhs, a total net absorption of currency amounting to − 117,11 lakhs, and an average annual net absorption of − 10,65 lakhs.

"The volume of currency," the Chairman said, "did not diminish after the War [1914-18] was over, and in the year 1930-31 the worst year of the Great Depression, the total note circulation was higher (160'84 crores) than the maximum reached during the War period."

The Chairman forgets that the volume of currency, while it practically means the note circulation at the present time, meant more during the period of 11 or 12 years preceding 1930-31—we cannot ignore the rupee circulation. Deflation took the form of heavy contraction of the rupee circulation (117 crores). Prof. Mahalanobis's estimate of rupee circulation is 364 crores for 1920 and 241 crores for 1931, a contraction of 123 crores, which agrees very well with the figure of net absorption of rupees given above.*

We are not concerned with the exact amount of deflation. But the fact of heavy deflation between 1920 and 1931 is unquestionable. It is known to the layman and every one else, except some banking experts.

*Currency Report, 1940-41, p. 78

Prices (July 1914=100) rose to 202 in 1920 and fell to 96 in 1931.

We are specially interested in the course of deposits. They rose from 87 crores in 1914 to 224 crores in 1920, an increase of more than $2\frac{1}{2}$ times. They fell steadily from 1920 to 1923, and between 1924 and 1929 fluctuated between 200 and 205 crores. After rising to 212 crores in 1930 they fell to 198 crores in 1931. It was the practically stationary condition of our deposits at the time when the Central Banking Enquiry Committee met which led the foreign experts to conclude that the country was not "abounding with untapped banking possibilities."*

As compared with the present war, inflation during the last world war was on an extremely modest scale. And yet the years 1920-31 saw heavy deflation and a heavy fall of prices. The expansion of deposits ceased and there was a slight fall.

Unless created money continues in operation, a year or two after the close of hostilities, if not earlier, prices will begin to fall, accompanied by a contraction of the currency. Deposits will cease to grow and they may even decline. Currency, prices, deposits at present are all inflated.

The trend of deposits between June 1942 and February 1944 is shown in Fig. 19 (a) (see p. 195). The equation to the fitted straight line is

$$y = 513{\cdot}55 + 31{\cdot}76x,$$

where x is a unit representing two months. It follows that the addition to deposits in a year is

$$31{\cdot}76 \times 6 = 190{\cdot}56 \text{ crores.}$$

If this trend persisted for 20 years, total deposits would increase to :

$$y = 513{\cdot}55 + 190{\cdot}56 \times 20$$
$$= 513{\cdot}55 + 3811{\cdot}20 = 4324{\cdot}75.$$

Is such growth of deposits normal for Indian conditions ?

2. Currency and Deposits per Head in 1939.

The Table given on p. 198 shows currency and commercial bank deposits per head in 1939 in India and other countries. The calculation is based on figures given in the *Statistical Year Book of the League of Nations* for 1940-1941. Currency comprises notes and coins in circulation. Deposits are those of commercial banks only. Figures of population

* Report, p. 626

are estimates for 31st December, 1939. For purposes of comparison deposits and currency were, in each case, converted into U. S. A. dollars at the value of each national currency in December, 1939. [See Fig. 19 (*b*) on p. 196.]

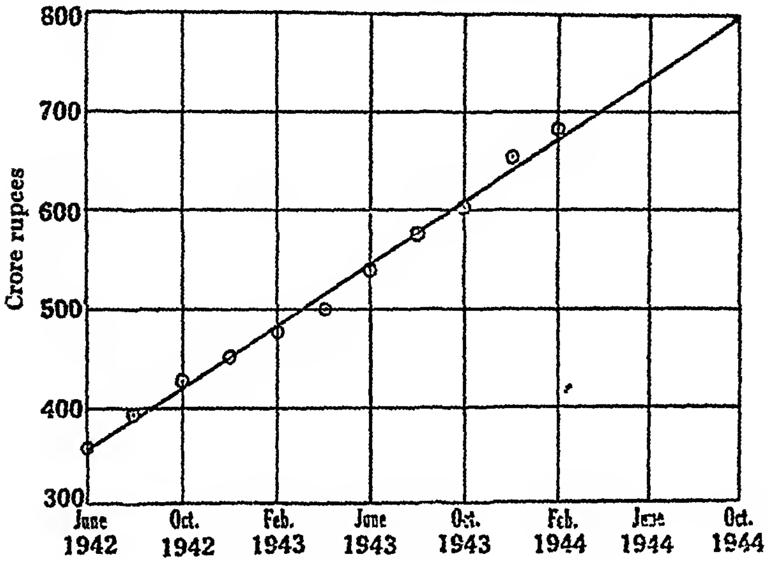


Fig. 19 (*a*).

Showing the growth of deposits of Scheduled banks between June, 1942, and February, 1944. The equation to the fitted straight line is :

$$y=513\ 55+31{\cdot}76x$$

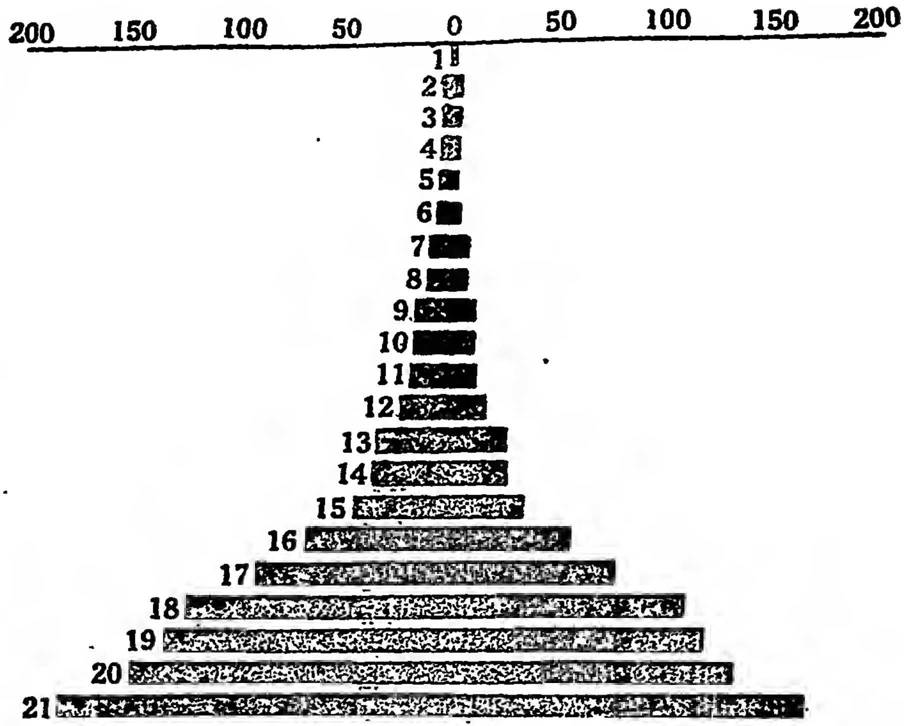
It is not a coincidence that our name tops the list in both cases. When deposits per head are plotted against currency per head, the points show a distinct upward trend (see Fig. 20 on p. 197), which is measured by a straight line with the equation

$$y=-7{\cdot}31+4{\cdot}14z.$$

There are exceptions to the rule. For example, Canada with *per capita* currency of 19·0 dollars, had *per capita* deposits of 249·7 dollars, and at the other end, France with a *per capita* currency as high as 79·3 dollars had *per capita* deposits as low as 29·5 dollars. But, on the whole, where there is more currency per head deposits per head are also larger.

When there was no created money, the genuine savings of the people with commercial banks in India in 1939 were lowest among 24 countries.

	U.S.A. dollars
1. India ...	2·2
2. Poland ...	7·5
3. Rumania	8·2
4. Portugal	8·6
5. Yugoslavia	9·5
6. Turkey ...	11·4
7. Brazil ...	18·6
8. Greece ...	18·7
9. France	29·5
10. Bulgaria	29·8
11. Hungary	33·4



	U.S.A. dollars
12. Germany	42·8
13. Italy ..	60·5
14. Japan ...	64·0
15. Norway	77·6
16. Denmark	124·7
17. Sweden	166·2
18. United Kingdom	231·5
19. Canada	249·7
20. S. Africa.	276·2
21. U. S. A.	344·9

Fig. 19 (*b*).
Showing commercial bank deposits per head in 1939 in U. S. A. dollars.

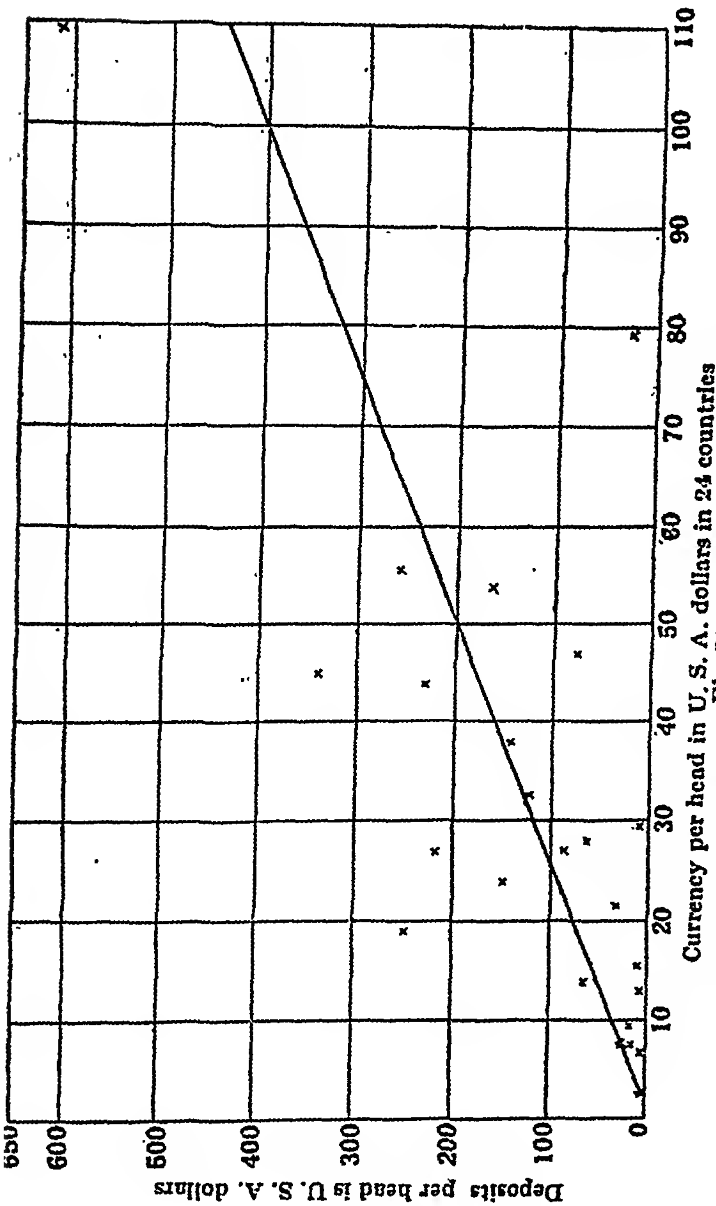


Fig. 20.

Showing correlation between currency and deposits per head in 1930 in 24 countries (For data see Table XII. 1.)

$y = -7{\cdot}31 + 4{\cdot}14x$

Table XII. 1.

	Population 1939 Millions	Deposit per head in U.S.A. dollars	Currency per head in U.S.A. dollars
1. India ...	382·0	2·2	2·8
2. Poland ...	35·1	7·5	6·8
3. Roumania ...	13 3	8·2	29·4
4. Portugal ...	7·6	8·6	13 1
5. Yugoslavia ...	15·7	9·3	15·4
6. Brazil ...	40·9	18·6	7·4
7. Greece ...	7·2	18·7	9·5
8. France ...	42·0	29·5	79·3
9. Bulgaria ...	6·6	29·8	7·7
10. Hungary ...	13·5	33·4	21·7
11. Italy ...	43·9	60·5	28·1
12. Japan ...	72·5	64·0	13·8
13. Norway ...	2·9	77·6	47·2
14. Argentine ...	13·1	88·9	27·1
15. Denmark ...	3·8	124·7	32·7
16. New Zealand ...	1·6	142 7	38·0
17. Australia ...	7·0	149·7	24·0
18. Sweden ...	6·3	166·2	53·7
19. Eire ...	2·9	219·7	27·0
20. United Kingdom ...	47·7	231·5	44·1
21. Canada ...	11·4	249·7	19·0
22. Belgium ...	8·4	259·7	55·3
23. U. S. A. ...	131·4	344·9	45·4
24. Switzerland ...	4·2	616·6	109·4

Trend of Deposits, 1896-1940. A study of the trend of our commercial bank deposits between 1896 and 1940 is of value in showing the progress of deposits in normal times. The best representation of the trend is by the Gompertz curve.

The curve in Fig. 21 (p. 200) shows deposits rising to 319·3 crores in the year 2000 A. D.

The curve could not anticipate the swelling of deposits on account of created money during this war. It rises slowly on account of the stationary condition of deposits between 1920 and 1934.

The trend makes one thing clear. Apart from 'created money' it is not possible for our deposits to grow by leaps and bounds.

Orthodox methods of finance will not industrialise India within a reasonable period of time. For rapid industrialization we must use unorthodox methods. We may choose one

Table XII. 2.

The trend of Indian Commercial Bank deposits, 1896-1940
Fitting the Gompertz curve.

Year	X	Deposits Crores (Y)	Log Y	(Log a)b^x	Log Y_c = log k + (log a)b^x	Y_c
1896	0	28	1·44716	−1·2720063	1·2346480	17·2
1897	1	26	1·41497	−1·1960958	1·3085585	20·3
1898	2	27	1·43136	−1·1284807	1·3781736	23·9
1899	3	30	1·47712	−1·0629103	1·4437440	27·8
1900	4	31	1·49136	−1·0011499	1·5055044	32·0
1901	5	35	1·54407	−·9429779	1·5636764	36·6
1902	6	42	1·62325	−·8881862	1·6184681	41·5
1903	7	45	1·65321	−·8365779	1·6700764	46·8
1904	8	50	1·69897	−·7879686	1·7186857	52·3
1905	9	52	1·71600	−·7241836	1·7644707	58·1
1906	10	57	1·75587	−·6990590	1·8075953	64·2
1907	11	61	1·78533	−·6584400	1·8482143	70·5
1908	12	64	1·80618	−·6201813	1·8864730	77·0
1909	13	73	1·86332	−·5841458	1·9225085	83·7
1910	14	83	1·91908	−·5502038	1·9564505	90·5
Σ_1 log Y			24·62725*		2·46272474*	
1911	15	88	1·94448	−·5182341	1·9884202	97·4
1912	16	93	1·96848	−·4881222	2·0185321	104·4
1913	17	90	1·95424	−·4597598	2·0468945	111·4
1914	18	87	1·93952	−·4330455	2·0736088	118·5
1915	19	90	1·95424	−·4078833	2·0987710	125·5
1916	20	107	2·02938	−·3841743	2·1224800	132·6
1917	21	152	2·18184	−·3618602	2·1447941	139·6
1918	22	153	2·18469	−·3408343	2·1658200	146·5
1919	23	202	2·30535	−·3210301	2·1856242	153·3
1920	24	224	2·35025	−·3023766	2·2042777	160·1
1921	25	218	2·33846	−·2848070	2·2218473	166·7
1922	26	192	2·28330	−·2682583	2·2383960	173·1
1923	27	187	2·27184	−·2526711	2·2539832	179·5
1924	28	200	2·30103	−·2379896	2·2686647	185·6
1925	29	203	2·30750	−·2241613	2·2824930	191·6
Σ_2 log Y			32·31460*		32·3146068*	
1926	30	205	2·31175	−·2111363	2·2955180	197·5
1927	31	202	2·30535	−·1988682	2·3077861	203·1
1928	32	205	2·31175	−·1873130	2·3193413	208·6
1929	33	201	2·30320	−·1764291	2·3302252	213·9
1930	34	212	2·32634	−·1661701	2·3404842	219·0
1931	35	198	2·29667	−·1565003	2·3501540	224·0
1932	36	218	2·33846	−·1474272	2·3592271	228·7
1933	37	221	2·34439	−·1388609	2·3677934	233·2
1934	38	228	2·35793	−·1307925	2·3758618	237·6
1935	39	245	2·38917	−·1231977	2·3834616	241·8
1936	40	258	2·41162	−·1160345	2·3906198	245·8
1937	41	263	2·41996	−·1092924	2·3973619	250·0
1938	42	256	2·40824	−·1029420	2·4037123	253·3
1939	43	272	2·43457	−·0969605	2·4096938	256·9
1940	44	307	2·48714	−·0913266	2·4153277	260·2
Σ_3 log Y			35·44654*		35·4405682*	

* *Footnote*—See page 201.

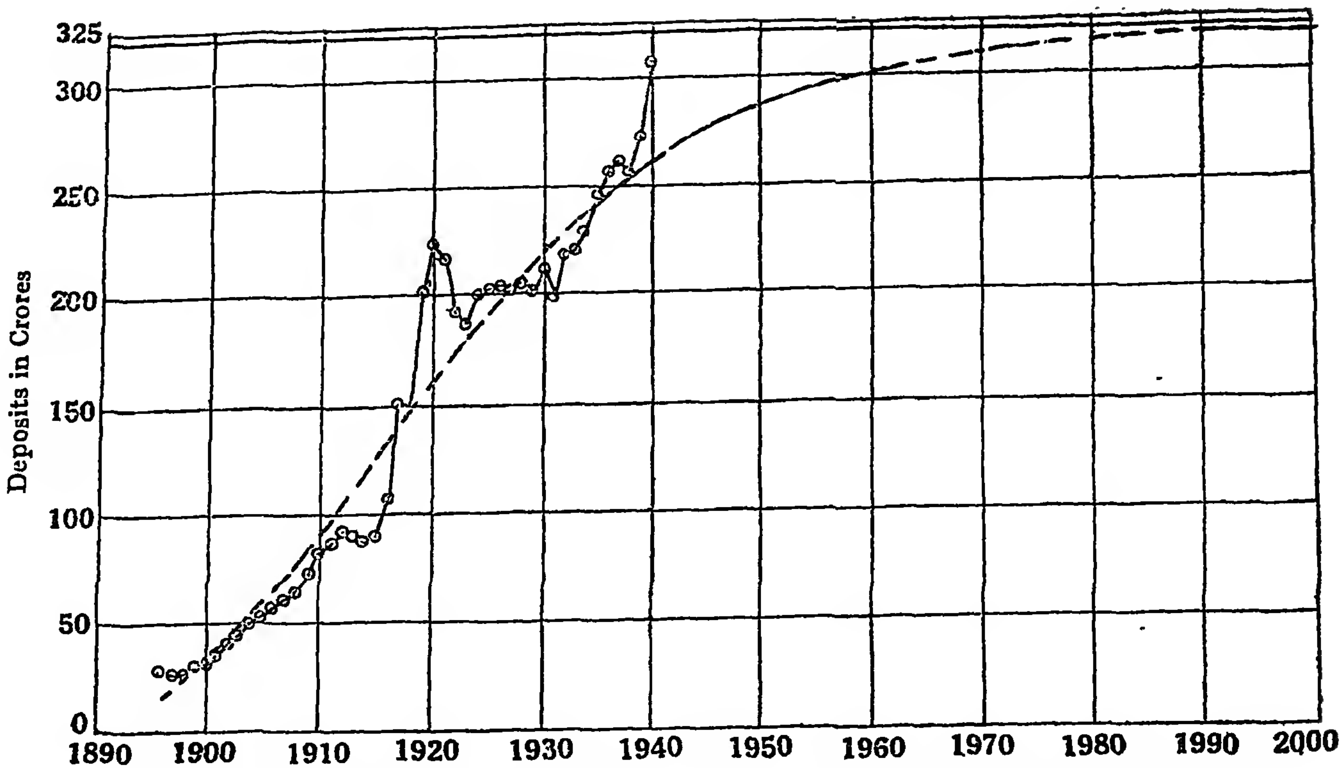


Fig. 21.

Showing the Gompertz curve fitted to Indian commercial bank deposits, 1896 to 1940.
The equation to the fitted curve is :

$$y = 321{\cdot}11(0{\cdot}5345565)^{\cdot 9418949^{x}}$$

form of created money or another, but from created money itself there is no escape.*

*Prof. C. N. Vakil of Bombay is an advocate of orthodox methods of finance. He would enlarge the objectives of the Bombay Plan by including in it 'certain social security arrangements' and by guaranteeing to each individual the minimum average standard laid down in the Plan. But he would have none of 'created money'. He says (*Roy's Weekly*, April 2, 1944):

"Created money could not take the place of capital. To ignore the dangers of inflation inherent in this suggestion by saying that economists are obsessed with the word 'inflation' is not good logic.

"If you have to create money to finance the Plan, it means that the necessary capital is not forthcoming to that extent from genuine savings. Under such conditions 'created money' will merely squeeze the people most unevenly and no amount of quibbling or side-tracking will remove the inevitable consequences of the process."

Prof. Vakil takes the view that industrialisation can be carried through without 'created money', or with genuine savings alone. He says:

"There would be no need for 'creating money' as suggested in the Plan. With increased production there would be some natural expansion of currency; the banks would be in possession of larger amounts of cash; with a larger cash basis they would be able to grant more credit and bank money would, therefore, be created if there was genuine demand for it".

Very probably Prof Vakil's definition of industrialisation is the same as that given by Prof. K. T. Shah otherwise he might have taken the trouble to explain how banks would be able to provide several thousand crores for industrialisation out of genuine savings of the people.

Footnote to p. 199.

The equation of the Gompertz curve is: $Y = Ka^{b^x}$ or

$$\log Y = \log K + (\log a) b^x$$
$$b^n = b^{15} = \cdot 40741478 \, ; \, b = \cdot 9418949$$
$$\log a = -1 \cdot 27006343. \qquad \log k = 2 \cdot 5066543$$

The equation is:

$$\log Y = 2 \cdot 5066543 - 1 \cdot 27006343 \, (\cdot 9411949)^x.$$

with origin at 1896 and X units of one year, or

$$Y = 321 \cdot 11 \, (0 \cdot 5345565)^{\cdot 9418949^x}$$

CHAPTER XIII

THE EXTERNAL ASPECT

There are two aspects of planning, internal and external, which are inter-related. Within the country created money will effect the diversion of labour from land to basic and other industries which we may decide to develop. The plan will be based on the fullest utilisation of Indian resources, but help from outside is not excluded. This will take the form of import of capital goods, such industrial raw materials as we lack, and, most important of all, foreign technicians. Imported goods and services have to be paid for. In the beginning exports of goods may be of less value than imports for, imports of capital goods will be on an unprecedented scale. And that is why our sterling balances are of very great importance.

1. The International Monetary Fund.

What will be the monetary and financial condition of the world when hostilities cease? A period of confusion and difficulty, of instability and uncertainty, must intervene. It is impossible to expect that world economy will be re-adjusted to peace conditions without friction.

The object of international currency plans is to remove or reduce this friction in international financial relations. Two post-war currency plans, the British and the American, were widely discussed sometime ago.

There were differences between the two plans, and to settle them Lord Keynes went to the United States. A London cable dated October 5, 1943, published in the daily papers, stated that in the United States Lord Keynes and his staff were engaged in "deep conversations with Americans trying to hammer out a world economic policy." A policy finally emerged in the shape of proposals for an "International Monetary Fund", which replaces the Clearing Union and the Stabilisation Fund of the earlier proposals.

2. Differences between the Old and the New Proposals.

The London cable relating to Lord Keynes's visit to the United States, referred to above, said :*

* *The Tribune*, dated 8th October, 1943.

"There is still a lot of ground to cover before the conflicting views are reconciled. Keynes wants stabilisation of commodity prices as well as currencies to prevent fluctuations. It is stated that he is arguing that the present American plans are too orthodox and too tied to gold and that a really liberal policy is needed. But gradually that gulf is being narrowed...

"United States officials are afraid that they will have difficulty in getting congressional agreement to an all-embracing economic plan, and may prefer a series of recommendations at intervals, starting with currency stabilisation. Questions of a world bank and world commodity pool would come later."

These comments provide a clear background to the proposals regarding the International Monetary Fund.

1. The proposed Fund, in the first place, is meant just for currency stabilisation, The International Clearing Union of the British Currency Plan had also other objects in view. The Union, it was stated "might become the pivot of the future economic government of the world." The Union might have concerned itself with post-war relief, rehabilitation and reconstruction. It might have taken a share in preserving world peace by providing machinery for enforcing a financial blockade of recalcitrant countries. It might have been used to stabilise the prices of primary products and to control the Trade Cycle. Commenting on the wider aspects of the British Clearing Union the present writer said: "It remains to be seen whether these grandiose schemes will actually materialise at the end the war."* These grandiose schemes form no part of the proposals regarding the International Monetary Fund.

The Fund is not concerned with post-war relief or reconstruction, nor even with abnormal war-balances which were dealt with both in the earlier British and American proposals.

2. Both the *Bancor* and the *Unitas* of the earlier plans have vanished. The Fund is not to provide a generally acceptable means of payment between nations, to which the currency units of different countries may be linked.

3. In the earlier plans exchange rates could not be altered by unilateral action. In the new proposals, changes in the par value of a member's currency, essential to correct a fundamental disequilibrium, shall be approved by the Fund.

* *Principles of Economics*, p. 31.

The decision as to the existence of disequilibrium and the need for correcting it, will presumably rest with the country concerned.

4. In the new proposals there is a definite recognition of exchange control in the transitional period. A member country wishing to retain measures of exchange control, inconsistent with the objects of the Fund, three years after the Fund has come into force, shall consult the Fund about their retention. This means that in special cases the permission may be given. In the earlier American proposals, the stabilisation Fund was to fix the rates at which it was to buy and sell one member's currency for another and the rates in local currencies at which it was to buy and sell gold. For changing the rates four-fifths member votes were required. Elasticity, rather than rigidity, characterizes the new proposals. The earlier proposals did not approve of exchange control under any circumstances.

5. The International Monetary Fund is to be organised on a voluntary basis. Any member country may withdraw from the Fund without notice and without penalty.

3. Lord Keynes's View.

In explaining the international monetary plan in the House of Lords on May 14, 1944, Lord Keynes is reported to have said that the plan 'was the exact opposite of the essence and meaning of the gold standard'.

Lord Keynes's declaration is not easy to understand. A plan which was the exact opposite of the essence and meaning of the gold standard would not provide for the expression of the par value of national currencies in terms of gold, or impose an obligation on member countries to buy and sell gold or other currencies within a prescribed range based on agreed parities, or require them not to engage in discriminatory currency transactions. As the plan includes these provisions, it is (with due respect to Lord Keynes) a return to the gold standard. But the plan, as we have noted above, is elastic. No universal return to the gold standard, on a fixed date, is contemplated. Time is given to member countries to determine suitable parities, and changes in these parities in the transitional period will be allowed. The main idea of the new plan (as of the earlier two plans) is to avoid competitive currency depreciation and to secure stability of exchange rates. As this stability is to be expressed in terms of gold, the international gold standard is clearly visible in the background.

Lord Keynes is also reported to have said that 'there was nothing in the monetary proposal to interfere with two-sided transactions.'

One of the declared objects of the International Monetary Fund is "To assist the establishment of multi-lateral payment facilities..." Multi-lateral payment facilities presuppose multi-lateral, not bilateral, trade and clearing arrangements.

4. *War-Balances.*

The plan, as we have seen, does not provide for the liquidation of war balances (*e.g.*, our sterling debt). The official view in India was that the plan 'would assist in bringing about the multi-lateral convertibility of sterling at a data earlier than otherwise would be the case.' It has now been made clear that the International Monetary Fund is not concerned with the question:

"Bretton Woods (New Hampshire), July 5, (1944).—Informed sources disclosed to-day that the International Monetary Conference turned down a proposal by the Indian delegation that would have released India's blocked sterling balances.

"A spokesman said that the majority of delegates turned down the propasal, which tried to include in the resolution in regard to the Fund a clause to the effect that a member country could obtain through the Fund the foreign exchange of another country from which it is buying.

"India, which has been exporting heavily to the United States, has a large favourable balance in London, but is unable to import anything from the United States because the sterling balance is blocked.

"Explaining the refusal to accept the Indian proposal, the spokesman said that it was generally held that the scope of the International Fund could not possibly be enlarged at present to include a solution of India's problem without endangering the Fund's ability to perform its main functions. Although several of the delegations backed up India's proposal, opposition was encountered from the majority—not because of any lack of sympathy for India's dilemma, but because it was felt that it would complicate the general scheme of the Fund, which was still in the difficult formative stages. The problem of war balances had now become so huge that it was felt that it would completely swamp the machinery of the proposed Fund. But, under the able leadership of Sir Jeremy Raisman, the chief delegate from India, attempts would be made to solve the problem through bilateral arrangements with the countries concerned".

The attempt to secure the release of our sterling balances through the Fund failed. The Conference also rejected the proposal to release a part of these assets for conversion into foreign exchange. The proposal was opposed by the United States, the United Kingdom and Free France. The French delegate said that if Indian sterling was to be released, France would require that her blocked assets in Germany should also be taken into account. The two cases are not on the same footing, but the difference was ignored. Earlier the Conference rejected a more modest Egyptian proposal regarding some preferential treatment in the rationing of foreign exchange, which was already in the plan.

Amount of blocked sterling. The following statement, borrowed from the *Eastern Economist* of July 28th, 1944, shows the total amount of blocked sterling. India is the largest creditor, but other countries are also affected by the decision of the Conference to exclude blocked sterling from the scope of the International Monetary Fund :

Blocked Sterling Balances (In Millions of £ stg.) for the month of December) :

	1939	1941	1942	1943
Sterling area				
India : Reserve Bank ...	86	207	358	644
Canada : Interest free loan ...	*	44	159	159
Eire : Currency, Commercial and Irish banks ...	75	100	125	147†
Malaya ...	*	60	60	60
Australia : Commonwealth Bank ...	35	48	63	82
New Zealand : Reserve and Trading Banks ...	13	20	33	35
South Africa : Reserve Bank ...	8	...	1	13
Palestine : Currency Board and Trading Banks ...	5**	10**	23**	67
West Africa : Currency Board ‡ ...	12	15	17	23
East Africa : Currency Board ‡ ...	3	4	9	16
Egypt : National Bank ...	22	53	83	106
Iraq : Currency Board ...	6	12	22	32†
Total sterling area ...	265	573	953	1,384
Other countries				
Argentine : Central Bank ...	...	..	19	54
Brazil : Banco de Brazil ...	...	...	...	30†‡
Uruguay ...	...	...	...	4
Grand Total ...	265	573	972	1,472
Dollar equivalent ...	1060	2,292	3,888	5,888

* Not available. † Sept. 1943. ‡ As of the middle year. **March 1940, 1942 and 1943 respectively. †‡ Estimated.

We are not concerned with other countries. They may be in a position to wait for repayment indefinitely, or they may agree to cancellation of the whole or part of their credits. We are a poor country and must utilise sterling assets for the economic development of the country, and as rapidly as possible. It is proposed by responsible financial quarters in Britain that the balances should be founded and paid off with an annual quota as sinking fund *plus* interest charges. Full repayment in this manner would take 30 years. This does not suit us. We want capital goods, not gold, but should enjoy some measure of freedom in purchasing capital goods in Britain or elsewhere. Probably this does not suit Britain, or there would not be such opposition to multi-lateral convertibility of blocked sterling.

The position is not clear. Sir Alfred Watson, (a former Editor of the Calcutta *Statesman*), writing in *Britain and the East*, said :

"That country [India] has but to write a cheque on the Bank of England to withdraw the whole of its sterling balances and dispose of them as it pleases—the impossibility of such a transaction is not grasped.

"India can only take repayment in goods and the production of goods worth a thousand million sterling is the business not of a day but of many years' hard labour.

"India will have made a very good bargain and Great Britain a bargain it may have cause to rue, if accounts are left as they are and India retains great sums that may be used in the economic development of India."*

Whether it is a good or bad bargain for England, the only right and proper use of our sterling assets is for the economic development of the country. Britain would be extremely willing to repay in consumer's goods over a long period. Repudiation would be preferable to consumer's goods.

India has acquired sterling assets at a heavy cost. In no belligerent country has war finance inflicted such suffering on the people as in India. It is natural for British financial circles to think more of the mill-stone around their neck. But for decades in the past we also carried, silently and without protest, the heavy mill-stone of the Home Charges hanging around our neck.

C. & M. Gazette, Lahore, dated 1st August, 1944.

5. A 'Closed' Economy.

Planning assumes a closed economy. Why?

We have seen that for more than one reason we must endeavour to maintain agricultural prices at a remunerative level, irrespective of world prices. Now suppose goods are freely exported and imported. Exports of cotton may reduce the supply available for home manufacturers, and imports of wheat from, say, Australia, may depress the price of wheat below the desired level. Price control would, thus, become ineffective. When goods are freely exported and imported, prices in the country will be determined by world forces. The world forces are beyond our control. Our planning can regulate internal supply and demand, not supply and demand all over the world.

A closed economy does not mean complete isolation from the rest of the world. For many years we shall need foreign machines and technicians, and some industrial raw materials will also have to be imported. Imports of essential goods and services will have to be paid for.

Suppose we accept the principles of the international monetary plan. Then we have to stabilize the gold value of the rupee at a particular level, and maintain it at that level. For all that we buy we must pay at the fixed exchange rate. Thus, exchange discrimination is ruled out.

If bilateral trade balancing is also ruled out, we may import goods from a country, *A*, even when *A* buys nothing from us, paying *A* by means of exports to country *B*.

When *A*'s goods are indispensable, exports to *B* may pay for imports from *A*, or gold may be exported.

But suppose *B* also is in a position to meet our requirements. We may then enter into an agreement with *B* for the exchange of goods against goods. That would be barter. Or the arrangement may be that within a given period of time we shall import goods from *B* of a fixed value, *B* agreeing to buy goods of an equal value from us. This is an example of a bi-lateral clearing arrangement.

The advantage of bi-lateral trade is that it minimizes the need for foreign payments in gold or its equivalent.

6. Multiple Currency Arrangements.

Multiple currency arrangements involve exchange discrimination.

If we sell our rupee at a cheaper rate to *B* than to *A*, there is exchange discrimination against *A*.

Differential exchange rates may be used to promote exports. We wish to increase our exports to country *B*, from which we shall require capital goods. The official rate of exchange may be 16*d*. but we accept payment from country *B* at the rate of 18*d*. per rupee. Thus goods of the value of £1,000 or Rs. 15,000 at the par rate, are sold to country *B* at a discount of 12½ per cent, or for Rs. 13,333.

Differential exchange rates were employed by Germany in pre-war years as a means of promoting exports. Blocked mark accounts had come into existence as the result of purchases made by Germany in foreign countries for which Germany had not yet paid. These accounts stood in the name of foreign countries, but were frozen credits, that is, the countries concerned could not make use of them. The Aski marks account (*Auslaender Sonderkonto fuer Inlandszahlungen*—foreigners' special account for payments within Germany) was a special blocked account. The Aski marks were sold to importers of German goods at discounts (about 20% to 35% below official parity) varying with the state of trade between Germany and the country in question. There were also several Aski mark accounts with a single country for different classes of merchandise. The tourist mark was sold cheaper than the par rate to encourage visitors to Germany.

Differential exchange rates are only a form of preferential treatment of certain countries or certain classes of imports. Even before the conclusion of the Ottawa Trade Agreements, we accorded preferential treatment to British steel. The United States, it is said, does not insist on the abandonment of preferential rates of duty as a means of encouraging inter-Imperial trade. Differential or preferential exchange rates introduce no new principle. Instead of the tariff, exchange rates may be employed for the same purpose.

In regard to international monetary or other arrangements, it would be a mistake for us to enter into commitments which

may have to be repudiated later. Planning, to be successful, must be comprehensive. It must embrace all aspects of economic life, internal as well as external. Planning rejects laissez faire *in toto*. It is not possible to embark on measures which end the free play of supply and demand within the country while exports and imports are determined by considerations of international welfare. Control of production and prices within the country presupposes stringent control of foreign trade and the foreign exchanges. Exchange control does not mean the maintenance of a fixed gold parity, but all methods of safeguarding and conserving foreign exchange, including differential exchange rates.

CHAPTER XIV

RELIGION AND ECONOMICS

We have examined the *economic argument* for cottage industries. It is of little value. If it is desired to raise the level of economic well-being by producing more wealth, then the dynamo is better than the *charkha*. The use of machinery is associated with certain evils-over-crowding in towns and insanitary conditions of town life. But these can be eradicated ; the use of hydro-electric power permits decentralisation of industry.

The real argument for cottage industry is not economic ; it is spiritual. Mahatma Gandhi is the greatest advocate of village industry, and he is also the greatest advocate of non-violence. Village industry and non-violence are integral parts of Mahatma Gandhi's view of life. It is an intensely religious view of life.

1. Non-Violence.

John Gunther says in *Inside Asia* :

"The concept of non-violence is a perfect example of Mr. Gandhi's familiar usage of moral weapons to achieve political results, of his combination of spiritual and temporal powers. India, an unarmed state, could make a revolution only by non-violent means. Non-violence was a spiritual concept, but it made revolution possible."*

Gunther suggests that non-violence is little more than a political weapon !

Non-violence is *nothing* new in the history of India. India was converted to non-violence more than 2,000 years ago. Non-violence was part of the morality which King Asoka's Mahamatras were appointed to preach and establish throughout his vast Empire. Their functions are thus *explained* in the 5th Rock Edict at Shahbazgarhi (N. W. F. P.) :

"They are occupied with servants and masters, with Brahmans and Ibhyas, with the destitute, (and) with the

* P. 382.

aged, for the welfare and happiness of those who are devoted to morality (and) in freeing (them) from desire (for worldly life)"*

Note 'freeing (them) from desire'. The word used in the text is *apaligodah*. *Paligodah* means 'desire'. Asoka's morality included indifference to material wealth.

In the 13th Rock Edict at Shahbazgarhi Asoka thus expresses himself :

"And Devanampriya [Asoka] thinks that even (to one) who should wrong (him), what can be forgiven should be forgiven...

"For Devanampriya desires towards all beings abstention from hurting, self-control (and) impartiality [*samcharium*] in (case of) violence"†

In numerous edicts Asoka commanded his subjects to abstain from killing animals. Eight years after his accession to the throne Asoka conquered Kalinga. We learn from the 13th Rock Edict at Shahbazgarhi that in the Kalinga wars 100,000 were slain 'and many times as many those who died'. The slaughter of war made a deep impression on the King, and he abjured violence. The First Rock Edict at Shahbazgarhi is touching in its personal references :

"This rescript on morality has been caused to be written by King Devanampriya. Here no living being must be killed or sacrificed [*hid no kichi jive arbhitu prayuhotave*]. And also no festival meetings must be held. For King Devanampriya sees much evil in festival meetings. But there are also some festival meetings which are considered meritorious by King Devanampriya. Formerly in the kitchen of King Devanampriya Priyadarshin many hundred thousands of animals were killed daily for the sake of curry. But now, when this rescript on morality is written, then only three animals are being killed (daily), (*viz.*) two—2—peacocks (and) 1 deer, (but) even this deer not regularly. Even these three animals shall not be killed in future."‡

Asoka was a noble king. A nobler king never lived.

* *Corpus Inscriptionum Indicarum*, pp. 56-7.
† *Ibid*, P. 69.
‡ *Ibid*, P. 51.

2. Non-violence and Communism.

Non-violence is a high ideal. So is communism.* But these are ideals which can be realised, if at all, on an international, never a national scale. Why ?

When communism comes, the State will fall asleep. Class-war having ended, and the exploitation of man by man having ceased, there will be nothing more for the State to do. It will quietly disappear.

The disappearance of the State, this engine of repression, is to be welcomed if the State disappeared everywhere in the same instant of time. If some States disappeared while others did not, the result would be war, and the conquest of the weaker by the stronger. Communism must be international. National communism is inherently impossible.

The same is true of *ahimsa* or non-violence. If *ahimsa* conquered the whole world, a non-violent world society might come into being. But if a single country practised non-violence, it would do so only as a subject country. The ideal of non-violence, as that of communism, pre-supposes a transformation of the entire human race into angels. If even a few hundred devils were left unconverted in any part of the globe, they would rule the angels.

3. Indian Experience.

There are many factors, religious, economic, political, climatic and geographical, which mould the character and destiny of a people, but of these, in India, the religious has been the most important. The Aryan of the Rig Veda was an extremely violent person so far as his enemies were concerned, and he observed few restrictions in regard to food and drink. He knew something of the joy of life. A profound

* The communist society is also a non-violent society. Lenin says (*State and Revolution* in Lenin's *Selected Works*, Vol. 7, P. 75) : "We set ourselves the ultimate aim of abolishing the State, *i.e.*, all organised and systematic violence, all use of violence against man in general. We do not expect the advent of an order of society in which the principle of the subordination of the minority to the majority will not be observed. But in striving for socialism we are convinced that it will develop into communism and hence, that the need for violence against people in general, the need for the *subjection* of one man to another, and of one section of the population to another, will vanish, since people will *become accustomed* to observing the elementary conditions of social life *without force* and *without subordination.*" (italics Lenin's)

change came over the people in the Indian Middle Ages, about 600 B. C. The world of material objects came to be regarded as evil. Indifference to material welfare became the highest virtue. Traces of this pessimistic view of life are found in the Upanishads, but it received emphasis in the teachings of Gautama Buddha. And, as we have seen, indifference to worldly life and non-violence were raised to the dignity of State-policy in the time of Asoka.

Non-violence changed the diet of the people. This was noted by Alberuni*, and amongst European visitors in the

* Alberuni stayed in different parts of India between 1017 and 1030 A. D. He sums up the Hindu ideal of virtuous behaviour in nine rules :

(1) A man shall not kill.
(2) Nor lie.
(3) Nor steal.
(4) Nor whore.
(5) Nor hoard up treasures.
(6) He is perpetually to practise holiness and purity.
(7) He is to perform the prescribed fasting without an interruption and to dress poorly.
(8) He is to hold fast to the adoration of God with praise and thanks.
(9) He is always to have in mind the word *Om*, the word of creation, without pronouncing it.

"The injunction to abstain from killing as regards animals (No. 1)", Alberuni continues, "is only a special part of the general order to *abstain from doing anything hurtful*. Under this head fall also the robbing of another man's goods (No. 3), and the telling of lies (No. 2), not to mention the foulness and baseness of so doing.

"The abstaining from hoarding (No. 5) means that a man is to give up toil and fatigue ; that he who seeks the bounty of God feels sure that he is provided for ; and that, starting from the base slavery of material life, we may, by the noble liberty of cogitation, attain eternal bliss" (*Translation* by E. C. Sachau, 1888, in Truebner's Oriental Series, Vol. I, Pp. 74-5).

In Chapter LXVIII Alberuni tells us what was allowed and forbidden in eating and drinking. "Originally killing in general was forbidden to them, as it is to the Christians and Manichaens. People, however, have the desire for meat, and will always fling aside every order to the contrary." This rule, according to Alberuni, applied in particular only to the Brahmans. "Some Hindus," he says further on, "say that in the time before Bharata [Mahabharata] it was allowed to eat the meat of cows, and that there existed sacrifices part of which was the killing of cows. After that time, however, it had been forbidden on account of the weakness of men..." (Vol. II, Pp. 151-52).

17th century, by a Jesuit missionary, R. P. Nobili.* The majority of Brahmanas, he says, eschewed meat, fish, eggs and onions, with the exception of 'maracht' (Mahrattas ?) who had no objection to onions, and who were, therefore, 'less in error than the others'. Among 'Kateris', there were those who followed the Brahmanas, but there were others who ate fish and all kinds of meat, except beef. He goes on: "One notices that even when Indians have been groaning under the tyranny of the Moors since the time of Tamerlane, which has made Muhammadanism the Court religion, the Moors have, I will say, preserved some respect for Kateris. This cast furnishes pretty good soldiers for the country and good officers for the Government." In regard to the Vaishyas he says: "Few among them eat meat."

We are not concerned here with the *pros* and *cons* of vegetarianism, but the quality and character of the people produced by the philosophy of non-violence. The view of life with which non-violence is associated is saintly. And non-violent saints may be the bravest of the brave. But does non-violent philosophy inspire the common man to fight for his rights, for his hearth and home ?

4. De Jongh's Account of *Ahimsa*.

De Jongh was in the service of the Dutch East India Company. He came to our country at the end of 1621 and was promoted to the rank of head factor (*oper-coopman*) in 1623. From 1623 to 1632 he served at Burhanpur and later, till 1640, as assistant director at Broach and Surat.

De Jongh got to know the people among whom he lived and worked and he was a careful observer. His account of the Western coast of India is of more than ordinary interest. He wrote the whole of it in 1625, except the concluding portion, which was added in 1631. De Jongh has a great deal to say about the philosophy, manners and customs of

* *Twee Oude Fransche Verhandelingen over het Hindoeisme*, edited and annotated by Dr. W. Caland of Utrecht. Amsterdam, 1923. The passages quoted are from *Relation de Erreurs* (pp. 101-05), which deals with the Hindus of the Malabar and Coromandal coasts. The account was written in 1644. For a portrait of Nobili, see Manucci's *Storia De Mogore*. Manucci, the plagiarist, must have known the French text (Dr. Caland's introduction).

'De Benjanen' (banias) of the Western coast*. He uses this term to indicate Hindus of the commercial caste, and often Hindus in general.

De Jongh's account, written more than 300 years ago, faithfully describes the creed of *ahimsa* of orthodox Hindus even to-day. Probably 300 years ago there were more orthodox Hindus than at present, but the meaning of *ahimsa*, or the reasons for it, have not changed.

De Jongh explains why the roads were not safe for travellers:

"The reason why the roads are not safe is that they are daily used by bania and heathen merchants, who travel with their goods but take few or no armed guards with them. The robbers attack them without hesitation and take what they please. For these merchants would rather lose their goods than kill any one (even their enemy) which thieves or robbers know very well. If trade were carried on by Moors and Christians

* De Jongh thus describes the *ahimsa* of *de Benjanen* :

"Banias, who live in the largest numbers in this town (Cambay), as has been said before, are the most kind-hearted of all peoples who live in the Province of Gujrat. They are much interested in poor people, give much alms to the needy, secure the release of many people who are captured by their enemies or robbers, and help many who are reduced to poverty or are oppressed by the ruler. It is not only poor men who are the object of their charity, but all animals in general, for they have a hospital (*pinjrapole*) where injured or sick beasts are taken care of—birds as well as four-footed animals—until they recover. Then they take the birds into the forest and let them fly away. Similarly, when four-footed animals are cured of their diseases, they set them free in places where they can live free and out of reach of man's power, so that they are not caught again by hunters, who are not so kind-hearted as the banias. When any Moor or Rajput, who have not the same scruples about killing animals, captures one and takes it to a bania, threatening to kill it if its price, and more, were not paid, the bania immediately buys it and pays more for it than it is worth, rather than let it be killed. If any one is too poor to pay the price himself, he asks others to contribute, until the sum required to satisfy the seller is found. Having bought the animal, they set it free or let it fly away. The religion of these banias does not permit them to kill anything that has life, much less to eat the abomination others have killed. They say that their religion forbids them to kill anything that has life—only He may kill who gave life. They also say that all animals, without any exception, possess a soul like man, though man is a nobler creation than cattle or birds. Therefore it does not become man to kill any of these creatures; only God may do so, whom they call *Ram Ram* or *Permisser*".

De Jongh's manuscript was edited by the late Prof. Caland, the well known Sanskrit scholar, in 1928 and published in 1929 under the title *De Remonstrantive van W. Geleynssen De Jongh* (The Hangue, 1929). For this passage see pp. 34-35.

alone, so many robberies would not be committed as at present, for Moors or Moghuls as also Christians) would rather die fighting than be robbed of their goods."*

Non-violence cannot maintain law and order within a country; still less can it defend a country against foreign aggression.

Asoka was the greatest of all kings but the propagation of his morality destroyed the foundations of the Indian State. When the view of life of a great majority of a people has come to be governed by non-violence, they are ripe for subjection. As in Nature everywhere, there is a struggle for survival among States, It is a pitiless and sanguinary struggle, as we witnessed 30 years ago and as we are again witnessing to-day Woe to the State that falls asleep! The Hindu State was lulled to sleep by non-violence, and the consequences are only too well known.

5. Requirements of National Defence.

Ignore the universal struggle for existence, or war and conquest, loot and slaughter, visible and invisible exploitation of subject countries, and then there is no difficulty in organising economic life in India according to Mahatma Gandhi's ideal. Machine-made goods are not indispensable. There were no such goods 300 years ago, and yet our ancestors presumably led healthy and vigorous lives—they were longer-lived than their descendants today. We can picture our people in post-war India living in isolated village communities, meeting their simple wants with the produce of their fields and handicrafts. These village communities will be self-reliant and self-sufficient. Towns will decay but the countryside will prosper. Labour need not be exacting, if there is strict limitation of wants. There would be few luxuries and comforts created by machinery, but of simple clothing and wholesome food there need be no lack. Modern means of communication and transportation would have to be dispensed with. At present we largely depend on imports for the necessary equipment; to make it in India basic industries must be

*In quaint 17th century Dutch this interesting passage reads: *"Want dese coopluyden liever haer goedren missen als yemant (hoewel thaer vijanden zijn) soude dooden, twelck dese dieven ofte wechrovers wel weten; dat soo den handel niet als door Mooren ofte Cristenen gedreven ende de wegen door haer bereijst werden, men soo veel dedieften niet ontmoeten soude als nu doen, want de Mooren ofte Mogollen (soo wel als de Cristenen) liever doot soude vechten als haer goederen van struijckrovers laten nemen."* (*Remonstrantie*, p. 44)

set up, which are not included in Mahatma Gandhi's scheme of re-construction. The bullock cart will replace the railway and motor transport. It can go anywhere. For the rest, we can walk. As Mahatma Gandhi has said, man sees more and lives more truly by walking to his duty.

This picture of idyllic happiness is wholly unreal; it is utterly impossible. Charkha *versus* the dynamo, implies a choice which is not open to us. There is no escape from the dynamo even in a 'closed' economy, for a 'closed' economy does not free a country from the universal struggle for existence.

Suppose soldiers to-day in every case insisted on walking to the field of battle. Why, in many cases, the battle would be over long before the reinforcements arrived. To-day soldiers are rushed to the scene of fighting by motor transport. A whole division with its equipment may be transferred from one part of the front to another, several hundred miles distant, in a few hours.

Village industry cannot create the industries vital to national defence. As realists we must make exceptions which Mahatma Gandhi will not.

But once we begin to make exceptions we do not know where to stop. Equipping a modern army is a gigantic task. Re-armament was the most important single factor in industrial recovery in Europe in the years preceding the outbreak of the present war. If we may judge from our own experience, war affects almost the entire field of production. Take consumers' goods like cloth, paper, boots and shoes, and medicines. Why is woollen cloth scarce? All Indian mills are working on Government account. Why are ordinary varieties of cotton cloth unobtainable? The answer is 'War'. It is a mistake to think that preparedness for war concerns only armaments.

6. Western Materialism.

In the minds of some writers industrialism is associated with materialism. They point to the multiplication of wants and the attachment to luxuries and comforts in the West, while in India "The same ideal of plain living and high thinking dominates all."* We in India are more interested in "the mystery and grandeur of the limitless vistas of the development of the

* *Foundation of Indian Economics* by Prof. R. K. Mukerjee, p. 324.

soul."* There is exploitation of man by man in the West. "Success in agriculture," on the other hand, "implies only the exploitation of nature."† The same is true of handicrafts: "The middleman, the trader or the money-lender in their dealings with the craftsman are always straightforward. They do not exploit the labourer but maintain him. The craftsman also looks towards them with due reverence."‡ Finally attention is drawn to the great inequalities in the distribution of wealth in industrial countries and it is claimed that such inequalities do not exist in a system founded on agriculture and village industry: "India is much more busy with the problem of the distribution of wealth than with the problem of production. What wealth she produces she attempts to distribute equitably amongst all classes of society."§

Distribution of Wealth. In an agricultural country land is the most valuable form of property. Is land equally distributed among owners in any part of India? There is a higher proportion of peasant proprietors in the Punjab than in the other provinces, but, as we have seen, even in the Punjab, land is very unequally distributed. The attention of the reader is called to the Lorenz curve (Fig. 17, Part I). Where 3·7 per cent of the owners own 25·7 per cent of the land, distribution of agricultural wealth cannot be considered equitable. What is more, unequal as the distribution of wealth already is, it is tending to become more, not less unequal. This is shown by the steady rise in the proportion of the area held by tenants in the Punjab during the last 50 years—the biggar fish are swallowing up the smaller fish.

It would be difficult to show that there is a more equitable distribution of wealth where landlordism is more important e.g., Bengal and the United Provinces.

"The same ideal of plain living and high thinking dominates all"—in fact plain living is restricted to small peasants and hand-workers. Plain living, in their case, means a semi-starved condition. As for high thinking, India's record is brilliant, but it is an ancient record, more than 2,000 years old.

Exploitation. The degree of exploitation in Indian agriculture and handicrafts is higher than in the industrial countries of the West.

* *Ibid*, p. 458. † *Ibid*, p. 465. ‡ *Ibid*, p. 327. § *Ibid*, p. 333.

The agricultural worker is exploited by (*a*) the non-working landlord and (*b*) the money-lender.

The facts are only too well known. The Famine Commission of 1901, as we have seen, referred to the money-lender as an incubus upon agriculture. An incubus is not a friend or benefactor.

Are tenants exploited by non-working owners? Study the Punjab *Farm Accounts*. On an average, as we have seen, 80 per cent, if not more, of the net income of land is claimed by the non-working landlord. What are the services rendered by such landlords to tenants or the land? The landlord in India is an exploiter pure and simple, and as such he is without a rival.

The hand-worker is as resourceless as the small peasant. Here is one example of how the money-lender does not exploit the labourer but maintains him. In explaining the decline of indigenous industries in Moradabad District the Census Superintendent of the United Provinces, 1931, says:

"Moradabad reports that many small industries have been destroyed by money-lenders. The workers have usually been improvident. In a period of prosperity they have spent freely and have continued this standard of living when slumps occurred by borrowing. Ultimately they have either had to sell up and take to other occupations or have fled without meeting their liabilities. The cotton pile carpets of Amroha City enjoyed a great reputation in the past and adorned palaces at Delhi and Agra. The decline of Muslim court life saw a decreased demand. In more recent times the products of Mirzapur and Shahjahanpur have deprived Amroha of the market of Agra. Where 1,000 carpets went to Agra 20 years ago, not 10 go now. Most of the former workers (chiefly Muslims) became indebted and have been sold up or decamped. One of the most famous firms was bought up by a *bania* when the proprietor died. The purchaser promptly proceeded to destroy his rivals by advancing them loans which they were unable to repay, or by undercutting their prices with a view to securing their monopoly and then ruling the market. He succeeded in destroying his rivals only to find that he could obtain quicker and more substantial returns for his invested money from his original business of money-lending. So he gave up the carpet business which he had ruined".*

This is not an isolated case. The hand-worker, in most cases, cannot do without advances from the middleman or the money-lender. If he is encouraged to borrow more than he can repay, his ultimate ruin is certain. Similarly, in agricultnre, the object of the money-lender was to secure

* *Report*, 1931, vol. I. pp. 424-25

possession of the land of the debtor, and this he succeeded in doing in the Punjab through *benami* transactions.

Wherever man is dependant on man, there is danger of exploitation. It is useless to pretend that exploitation does not exist in agriculture or handicrafts.

Marx thought that the industrial proletariat had 'nothing to lose but their chains' and the famous communist song, *L'Internationale*, addresses industrial workers as 'the damned ones of the earth'. It is impossible to think of industrial workers in England and the United States to-day as slaves in chains, as exploited, down-trodden humanity. An unemployed worker in these countries is better off than a fully employed small peasant or hand-worker in our country. The damned ones of the earth are found in India in plenty, not in countries of highly developed industrialism.

Exploitation of the agricultural worker and the craftsman is more difficult to prevent than that of a factory worker. Industrialization draws masses of workers to towns. They live together and work together. They form unions, and oppose their united strength to that of the exploiter. The development of the trade union movement has made exploitation of labour, such as Marks and Engels saw in their time, impossible. The power to combine and to act together has made labour strong. British labour is a powerful factor in British politics.

The very nature of agricultural operations renders a combination of agricultural workers difficult—they are spread over the broad face of the land. Not a single organisation of tenants or landless agricultural labourers exists (so far as the present writer is aware) in any part of our country. Hand-workers need protection both against money-lenders and middlemen, but they work in their homes. Collective bargaining is not possible between tenants and landlords, or between hand-workers and money-lenders, or hand-workers and middlemen.

Our indigenous economic organisation thus not only permits fearful exploitation of man by man, but makes it difficult to apply a remedy.

Invisible Exploitation. The exploitation of the hand-worker by the money-lender and the middleman is visible to every one, except those who have deliberately made themselves blind to it. But there is also a subtler form of exploitation which was explained in the discussion of gains of foreign trade. The economic domination of agricultural countries by industrial countries consists in the exchange of products of a small

number of factory workers against those of a very much larger number of agricultural workers. Such exchange is not peculiar to foreign trade. Within a country one day's labour in the form of some products, may exchange for 5, 10, or more day's labour in the form of other products.

The terms of exchange are against the hand-worker. How shall we help him ? If higher prices are fixed for hand-made goods than those for similar machine-made goods, the hand-made goods would not sell ; therefore, wherever there is competition, the use of the machinery must be abandoned. This may be done, but only at a heavy cost to the consumer. The only practicable means of ending the invisible exploitation of hand-workers, without sacrificing the interests of the whole community, is to lead them to find employment in factory industries. This is not difficult in a planned economy.

Soul Development. How do cottage industries assist soul development ?

Religion connects poverty with 'good life'. For the saint the world of material objects is an illusion, or *maya*.

But the common man is not a saint. And for the common man poverty is not soul-uplifting but soul-destroying.

What possiblities of cultural advance or spiritual progress exist for men and women who must toil unceasingly to make the two ends meet ?

One is reminded of a story related by S'adi in *Gulistan*. A king asked a holy man, who had a family, how he spent his valuable time. The reply was : *hama shab dar munajat, o sehar dar du'ae hajat,'o hama roz dar band-i-akhrajat* (all night in communion with God, morning in prayer for the satisfaction of wants, and the entire day in earning my livelihood).

The king comprehended the good man's meaning and made provision for his needs. S'adi concludes the story with verses, two of which are quoted below :

Hama roz ittifaq me sazam
Ke bashab ba khudae pardazam ;
Shab cho 'aqd-i-namaz bar bandam
Che khurad bamdad farzandam

("The whole day I plan to devote my night to God. All night, when settling myself at prayer, I reflect what my babes are to eat next morning.)

India has a rich spiritual heritage, but its preservation does not depend on the perpetuation of poverty and slavery. The cr*ed of *Ahinsa* guarantees both.

CHAPTER XV

THE STATE

We cannot leave out the State, or form of government, in a discussion of post-war reconstruction when the aim of reconstruction is the rapid industrialisation of the country through planning. An economic end has been chosen ; what form of government is best adapted to the realisation of this end ?

We look upon forms of government from a strictly practical point of view, No form of government possesses an absolute value, or value in itself. The value of a constitution is relative to the tasks it has to perform, due regard being paid to the character of the people who have to work it.

On the very first page of his *Representative Government* J. S. Mill refers to people who 'look upon a constitution in the same light (difference of scale being allowed for) as they would upon a steam plough, or a threshing machine.' He did not approve of such people.

A steam plough or a threshing machine is not wanted for its own sake. Under Indian conditions motor tractors and combine-harvesters may not be economical. If that is so, we have no use for them.

The question of the best form of government is of far greater importance, for government determines the conditions under which all economic activity is carried on. The best form of government for a *laissez faire* regime may not be the best form of government for a planned economy.

1. The Laissez Faire State-

The duties of the sovereign in a system of natural liberty were defined by Adam Smith long ago. They are three : defence, law and order, and maintenance of certain public works and certain public institutions which private enterprise cannot be expected to erect and maintain*, the profit motive being inoperative.

* Book iv, Chapter IX.

The position of J.S. Mill is the same. All restraint qua restraint is an evil. The consumer has the right to buy in the cheapest market. Trade is a social act and the principle of individual liberty is not involved in the doctrine of Free Trade but restraints on trade are wrong because they 'do not really produce the results which it is desired to produce by them.'* Government regulation is necessary in certain exceptional cases, *e.g.*, sale of poisons, and intoxicating drinks, offences against decency and gambling. A system of State-controlled education is objectionable as it would lead to the establishment of a despotism over the mind and eventually over the body. State industries would giye rise to a numerous bureaucracy and stifle individual effort and incentive. A bureaucratic regime puts an end to individual liberty. Mill cites the example of Russia: "The Czar himself is powerless against the bureaucratic body; he can send any one of them to Siberia, but he cannot govern without them, or against their will."† Then, where the subjects look to the State for doing everything for them, they become mentally inactive and dull. The fundamental condition for progress is thus destroyed.

The ideally best form of government is representative government, in which the sovereignty, or supreme controlling power, is vested in the whole body of people. We assume that human beings have the power of being, and are *self-protecting*, and, secondly, that they are *self-dependent*. The first proposition means that each person is the only safe guardian of his own rights and interests. The meaning of self-dependence is that the people rely on what they can do themselves, individually or collectively, rather than on what others do for them.

2. Implications.

Such is the famous argument for representative government, largely in J.S. Mill's own words.

Let us consider the implications of the two fundamental propositions laid down by Mill, that human beings are self-protecting and self-dependent.

State regulation of wages, in the case of adults, is an infringement of individual liberty. Ricardo scathingly condemed the attrempt made in England in 1808 to induce

* *Liberty*. Chapter III. † Ibid, Chapter III.

Parliament to fix a statutory minimum for weavers' wages. A British Parliamentary Committee, appointed in 1827, viewed the demand for State regulations of wages as an 'extravagant proposition' arising from ignorance of the laws of demand and supply. Nassau Senior wrote in 1830: 'But the instant wages cease to be a bargain—the instant the labourer is paid not according to his *value*, but his wants, he ceases to be a free man.'*

Similarly factory legislation, in the case of adults, is a violation of individual liberty. Factory legislation in England was opposed by economists in the first half of the 19th century.

Not only social insurance but progressive taxation was opposed by *laissez faire* economists till late in the 19th century, and that point of view is not quite dead yet. Progressive taxation, combined with social insurance, is a means of reducing the inequality in the distribution of wealth. It is robbing Peter to pay Paul. Self-protecting and self-dependent human beings would not desire to be treated as paupers and mendicants. Justice is the sole ideal that the State should pursue, and this means that individuals should be left free to make their destinies, the State only removing artificial causes which prevent any class of people from improving their economic condition.†

3. Assumptions and Reality.

Assume perfect competition, which implies perfect knowledge of economic conditions everywhere, perfect mobility of labour and capital, and total absence of costs of movement—and, then, given a closed economy, free play of self-interest will enable a community to attain the ideal distribution of resources, producing the maximum size of the national dividend.

These conditions may be approximately, though never fully realised in simpler forms of economic organisation. But consider highly developed capitalism. The predominant form of business organisation is the joint-stock company, commanding crores of capital and employing tens of thousands of workers. The labourer ceases to be an independent producer; he works for another. Production becomes highly

* See *Wages and the State* by E. M. Burns, p. 5.

† See Prof. Leroy Beaulieu's *Essai sur la Repartition des Richesses* (1881). p. 560 *et. seq.*

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* See *Wages and the State* by E. M. Burns, p. 5.

† See Prof. Leroy Beaulieu's *Essai sur la Repatriation des Richesses* (1881). p. 560 *et. seq.*

technical and it is carried out with the assistance of highly trained and often highly specialised workers. The movement of labour and capital from one occupation to another, and capital from one industry to another, becomes more and more difficult. Even given perfect knowledge of wages and profits everywhere, costs of movement and difficulty of movement effectively prevent free competition. Non-competing groups arise within the country, and exchanges between them are governed, not by the law of cost of production but by that of comparative costs, as in trade between two countries.

It is obvious that, under such conditions, Adam Smith's sovereign would have to be burdened with many other duties besides the three mentioned by him. Monopolies would have to be controlled and the interests of labour safeguarded. Regulation of foreign trade could not be excluded as foreign competition, aided by cheap labour or other facilities, might, under free trade, cause widespread unempolyment in important home industries.

A system of planless control and regulation arose during the period between the two wars. It ended the old system of planless freedom and individual choice.

4. Planning.

Planning consists in conscious and deliberate direction of the whole productive mechanism of a country for the realisation of pre-determined ends.

Even under highly developed capitalism doubts easily arise whether a political system in which sovereignty is exercised by the whole people will secure the best results in practice. But planning cannot be undertaken without setting up a highly complex machinery of State direction and control. The aims of planning may be such as the multitude will not understand or appreciate; the initial sacrifices demanded by planning may be such as will not be made if the matter were to be decided by a plebiscite. Immediate enjoyment in the present may be preferred to greater prosperity in the future. It is sometimes necessary to coerce the people for their own good.

5. Democracy in Italy and Germany.

Theoretical considerations suggest that planning would involve the sacrifice of democracy. This conclusion is supported by experience.

Mussolini visited Germany in Sept. 1937. In the course of his reply to Hitler's speech of welcome he said: 'The grandest and truest democracies in the world at present are those of Italy and Germany.'*

There was a general election in Italy on March 25th, 1934. 95·5 per cent of the electorate cast their votes and of these 99·8 per cent voted for Mussolini.

In Germany there was a general election on March 29th, 1936. 99 per cent of the electorate went to the polls, of whom 98·9 per cent voted for Hitler.

This is all the meaning of 'democracy' in Italy and Germany. There is a difference between dictatorship and democracy. In England the Leader of the Opposition, apart from being highly esteemed by Government, is paid a salary of £2,000 annually—to oppose the Government. Speaking in 1927 Mussolini said: 'The Opposition is not necessary to the functioning of a healthy, political regime. The Opposition is stupid, superfluous in a totalitarian regime, like the Fascist regime.'†

Mussolini's meaning was that where all had turned Fascist, there could be only one party, and there was no room for the Opposition.

6. Democracy in Russia.

No body has any illusions about democracy in Italy or Germany. But Russian democracy is supposed to be different. The Royist communists tell us that 'Planned economy can be possible only under a state which is effectively controlled by the entire people themselves.'‡ Russian planning is real planning because the State in Russia is controlled, not by a dictator, but 'by the entire people themselves.'

The Soviet parliament, called the 'Supreme Council of the U.S.S.R.', consists of two Chambers, the Council of the Union and the Council of Nationalities. The Chambers have equal powers, and each has the right to initiate legislation. If they differ, the difference is adjusted by a Conciliation Commission. To become a law, a measure must be passed by a majority vote in each Chamber. They meet for two months

* *Il Popolo d'Italio*, dated Sept. 29th, 1937.
† *Discorsi del 1927*, Pp. 122-23 ('Alpes', Milan).
‡ *Alphabet of Fascist Economics* by G.D. Parikh and M.N. Roy, p.9.

in the year, and in the interval between the sessions authority is vested in the Presidium of the Supreme Council, which is appointed by the two Chambers in joint session, and is composed of 37 members. The two Chambers also jointly appoint the Council of People's Commissars, which is the actual Government of the U.S.S.R. Both Chambers are elected by secret ballot for a period of four years.

It is claimed in *U.S.S.R. Speaks for Itself* that the Soviet electoral system 'is a model of the broadest democracy.'*

The first general election under the new constitution was held on 12th December, 1937. The electoral campaign, we learn, began with the study of the Electoral Law by all the voters.† The campaign involved millions and millions of people. Having finished their study of the Electoral Law, the electorate proceeded to the polls. On December 12th, 1937, the day of the elections to the Supreme Soviet, 96·8 per cent of the total electorate cast their votes. In the elections to the Soviet of the Union, 98·6 per cent of all who voted cast their votes for the candidates of the Communist and Non-Party Bloc. In the elections to the Soviet of Nationalities, 97·8 per cent of the electorate voted for the candidates of the Communist and Non-Party Bloc. In the elections to the Supreme Soviets of the Union and Autonomous Republics, 99·4 per cent of the electorate voted for the candidates of the Communist and Non-Party Bloc. The Communist Party had formed a bloc with Non-Party organisations and put up joint candidates.‡ All of them were elected. They were bound to be elected as there were no election contests—there was only one candidate for each constituency!

Soviet elections are somewhat different from elections in England or in India.

We may note the differences between Soviet democracy and British democracy.

The Supreme Soviet is not in permanent session; there is no Opposition and therefore no party system; while one may criticise the views and behaviour of those responsible for

* *U.S.S.R. Speaks for Itself* (1943), P. 206.
† *Ibid.* P. 207.
‡ Margaret Cole considers it probable 'that most of the candidates, by whomsoever put forward, had in fact to be approved by the Communist Party.' (*Our Soviet Ally.* Labour Book Service edition, p. 27.) That is all the meaning of the joint candidates being put up by the Communist Party and the Non-Party Bloc.

running shops and factories, no discussion can be raised on fundamental questions of policy; Mr. Winston Churchill may be got rid of by the British people, but not Stalin by the Russian people.

Where there is no party system, no change of government is possible. Mr. Churchill's government may be driven out of office any day by an adverse vote of the House of Commons; not so the Soviet Government. Margaret Cole says:

"The Russians cannot change their Government as a whole even if they wanted to; for no alternative government is allowed to offer itself."*

In England any question may be publicly discussed—even that of abolishing the monarchy, or establishing a socialist or communist regime, or the State-less regime of Anarchists, One may freely agitate for any form of business organisation, State-ownership, syndicalism, guild socialism No one dare advocate a return to private enterprise in Russia.

7. The Soviet One-Party System.

Before the inauguration of the new constitution Stalin granted an interview to Roy Howard, President of Scrips-Howard Newspapers of the United States, on March 1, 1935. The official report of the interview is printed in *Soviet Union 1936*.

Roy Howard asked: "A new constitution is being elaborated in the U.S.S.R., providing for a new system of elections. To what degree can this new system alter the situation in the U.S.S.R. since, as formerly, only one party will come forward at the elections?"

In the course of his reply Stalin said:

"Our society consists exclusively of the toilers of town and country—workers, peasants, intellectuals. Each of these strata may have its special interests, and express them by means of the numerous public organisations that exist. But since there are no classes, since the dividing lines between classes have been obliterated, since only a slight, but not a fundamental difference, between various strata in socialist society has remained, there can be no soil for the creation of contending parties. Where there are not several classes,

* *Ibid.* Pp. 40-41.

there cannot be several parties, for a party is part of a class."*

Classes are not abolished by State-ownership of means of production. The general manager of a bank, drawing a salary of Rs. 3,000 a month, belongs to a higher economic class than a clerk earnings Rs. 50 a month; a Minister or Executive Councillor cannot be put in the same class as a *chaprasi.* Income distinctions exist in the Soviet Union, for the basis of payment is not labour but work or productivity (*e.g.*, progressive piece-rates); in some cases, the inequality of incomes is as great as in the leading capitalist countries.† The one party system of Russia is not explained by the absence of class distinctions.

Margaret Cole writes of the political framework of 'Our Soviet Ally' with sympathy. She does not attempt to answer the question, 'Is Russia a dictatorship or a democracy'? 'The omission is deliberate.'‡

It should be clear to the reader that the Soviet political system is not a democracy as democracy is understood in England or India. The whole people do not control the Government; they are effectively controlled by the Government. There is no dictatorship of the proletariat in Russia

* *Soviet Union, 1936* (London, Lawrence and Wishart). Pp. 56-57.

† Mr. Wendel Wilkie meets a factory superintendent in Russia:

" How does your pay as superintendent of this factory compare with the pay of the average skilled worker in the plant ?" I asked him.

He thought for a moment. 'It is about ten times as much.'

That would be on the same ratio twenty-five or thirty thousand dollars a year in America, and actually was about what a man of similar responsibility in America would receive. So I said to him 'I thought Communism meant equality of reward.'

Equality, he told me, was not a part of the present Soviet conception of socialism. 'From each according to his capacities, to each according to his *work*' was the slogan of Stalinist socialism, he explained, and only when they had achieved the Communist phase of their development would the slogan be changed to 'From each according to his capacities, to each according to his *needs*.' Even then, he added, complete equality would not be necessary or desirable.

'With such an income normally you are able to save, to put aside something, aren't you?" I went on.

He laughed and said; 'Yes, if my wife does not spend too much.'

'What do you do with your savings ? How do you invest them ?'

'With my first savings, we bought ourselves a nice house', he told me". (*One World*: Cassel's Indian edition, 1944, Pp. 47-48.

‡ *Our Soviet Ally*, P. 44.

but dictatorship for the proletariat. We in India, a dependent country, enjoy greater liberty of thought and expression than the Soviet citizens. We have no system of internal passports and may move freely inside our frontiers. In Russia the industrial worker is virtually tied to his factory, and the agricultural worker to his collective farm.*

8. India, England and U.S.A.

The experience of Italy, Germany and Russia is that planning ends democracy. What is our own war-time experience ?

We have already discussed economic controls and their significance. It may be once more emphasized that for planning State-ownership of means of production is not essential. But freedom of enterprise, freedom to speculate and to make profits must be sacrificed. When production is planned for war, all fundamental questions of policy and organisation must be left to Government. That is so even in England today. The British people may change their dictator but not dictatorship during the war.

The reader may also be reminded of the methods adopted in the United States to overcome the Great Depression. They were not democratic but dictatorial.

9. The Indian Proletariat.

Is it a coincidence that whenever and wherever planning is undertaken, democracy, not the state, 'withers away' ?

If planning cannot be inaugurated in India without dictatorship of the proletariat, in the Marxian sense, we can never plan. With dictatorship of the poletariat in Stalin's sense, we can begin as soon as we are free to plan.

Do not forget the Indian proletariat. The masses are illiterate. They know nothing. They are sunk in superstition. They are moved by communal passion and religious frenzy.

The intellectual level of the masses is never high in any country. But we are not concerned with the masses in England or the United States, but our own people. Are they fit to exercise sovereignty in a State which plans ?

Plato regarded democracy, or government of the many, as the worst of all lawful governments.† One of his reasons for

* See *Marxism is Dead* by Brij Narain, Pp. 244-54.

† *Dialogues of Plato*, translation by Jowett, in two volumes (Random House, New York). Vol. II, P. 231.

the rejection of democracy was the ignorance of the multitude:

"*Stranger* [Socrates]: Do you think that the multitude in a State can attain political science?

Young Socrates: Impossible.

Str. But, perhaps, in a city of a thousand men, there may be a hundred, or say fifty, who could?

Y. Soc. In that case political science would certainly be the easiest of all sciences; there could not be found in a city of that number as many really first rate draught-players, if judged by the standard of the rest of Hellas, and there would certainly not be as many kings. For kings we may truly call those who possess royal science, whether they rule or not, as was shown in the previous argument.

Str. Thank you for reminding me; and the consequence is that any true form of government can only be supposed to be the government of one, two, or, at any rate, of a few?

Y. Soc. Certainly."*

Greek city-states were small. We are concerned with a State of 40 crores of people. Then, it is not merely a question of the multitude attaining political science. Possibly, where the functions of government are restricted, as in a *laissez faire* regime, the multitude may attain political science. But planning is beyond the comprehension of the multitude.

10. Leadership.

In the light of Indian experience Plato's well-known parable of the true pilot and the mutinous crew needs modification. The true pilot, says, Plato, 'must and will be the steerer, whether other people like or not.'† But in vessels which are in a state of mutiny, how will the true pilot be regarded? As 'a prater, a star-gazer, a good-for-nothing.' In India the captain is willing to steer the ship of polity according to the orders of the crew. Perfect harmony prevails, for the captain responds to the mass mind ‡

* *Ibid.* Vol. II, Pp. 320-21.
† *Ibid.* Vol. I, 749.
‡ "That I respond to mass mind and the masses know me instinctively is a fact which cannot be gainsaid"—Mahatma Gandhi (*C. & M. Gazette*,—Lahore, dated July 13th, 1944).

The mass mind is ignorant. It is the mind of a child. As is well known, a child has a strong natural tendency to follow the line of least resistence. Leaders who readily respond to the mass mind are certainly popular. But popularity is not the test of true leadership. Some of the greatest leaders of history, nation-builders, were the best-hated men of their time (*e g.*, Kautilya in India, Bismarck in Germany).

11. Vote-catching.

Plato says in the *Republic*:

"The pilot should not humbly beg the sailors to be commanded by him—that is not the order of nature; neither are 'the wise to go to the doors of the rich'—the ingenious author of this saying told a lie—but the truth is, that, when a man is ill, whether he be rich or poor, to the physician he must go and he who wants to be governed, to him who is able to govern. The ruler who is good for anything ought not to beg his subjects to be ruled by him; although the present governors of mankind are of a different stamp: they may be justly compared to the mutinous sailors, and the true helmsmen to those who are called by them good for nothing and star-gazers."*

What are the consequences of rulers begging their subjects to be ruled by them?

Democracy in the Punjab is a landlord democracy, or rule by non-working landlords. Can one expect a landlord government to enact measures which will adversely affect their interests as a class? Suppose the Punjab Government introduced a measure to substantially reduce the landlord's share in *batai*. They would lose the confidence of their electorate. Who would vote for such Ministers or legislators at the next election?

One may imagine a government of money-lenders. Would money-lenders enact legislation to cut their own throats?

Where there is a conflict between the interests of classes, castes or communities, and legislators represent particular interests, democracy becomes a farce—it is a means of enriching the particular class, caste or community in power. This is not a matter of theory but what we actually see.

* Jowett, Loc. cit., Vol. II, p. 750.

An extension of the franchise will bring little improvement. Tenants will vote for landlords, the exploited for the exploiter—for reasons of community.

Our democracy emphasizes communal, class and caste differences. Is any planning possible under such conditions?

12. What the State may Do.

Once again we seek inspiration from Plato, one of the most original and profound thinkers of antiquity:

"*Athenian.* And yet, where there is tyranny, you might certainly see that of which I am now speaking.

Cleinias. What do you mean?

Ath. I mean that you might see how, without trouble, and in no very long period of time, the tyrant, if he wishes, can change the manners of a State: he has only to go in the direction of virtue or of vice, whichever he prefers, he himself indicating, by his example, the lines of conduct, praising and rewarding some actions and reproving others, and degrading those who disobey.

Cle. But how can we imagine that the citizens in general will at once follow the example set to them; and how can he have this power, both of persuading and compelling them?

Ath. Let no one, my friends, persuade us that there is any quicker and easier way in which States change their laws when the rulers lead; such changes never have, nor will, come to pass in any other way."*

'Tyrant' in ancient Greece meant an absolute ruler and 'tyranny' absolute rule, not necessarily misrule. Akbar and Asoka were 'tyrants'.

All this is nothing new to us. यथा राजा तथा प्रजा sums up Plato's thoughts ('as the king so his subjects'). The State wields enormous power, of doing good or evil. The State to-day has powerful means of propaganda at its disposal, the press and the screen. It has only to lead; the subjects must follow.

British theories of democracy are inapplicable to India: Our social and other conditions are different; our history and tradition are different; and our masses lack that political training and discipline which the British people acquired in the course of their struggle for freedom extending over centuries.

* *Ibid.* Vol. II, p. 483.

13. Ancient India.

Our love for democracy is imitative; otherwise it is unaccountable. India was not governed according to democratic principles at any time during the Muhammadan period. As for ancient India, republics were not unknown, but they were small and weak, and of little account. 'Dissensions led to breaking up of *ganas*,'* says Jayaswal; he interprets *gana* as a republic. The predominant form of political organisation in ancient India was monarchy—there is strong condemnation of *arajaka praja*, or kingless people, in *Mahabharata*. The King had his *Sabha* and *Samiti*, and we had also our own theory of the origin of the State, something akin to the theory of social contract. The King had his rights as well as duties. In the Rig Veda he is spoken of as गोपा जनस्य or protector of the people; how this duty of protection was interpreted we learn in detail from Kautilya's *Arthashastra*. As depicted by Kautilya the ancient Hindu State was not organised on the principles of *laissez faire*. Far from that. There is some idea of *Planwirtschaft*†, an attempt to plan economic life. The organisation of all traders, hand-workers, peasants and others in guilds under State control, made it possible for the State to control production and prices.

There is no trace of parliamentary government in the *Arthshastra*.

* *Hindu Polity* by K. P. Jayaswal (1943 Bangalore). p. 176. गण is translated as 'corporation' by Shamasastri in *Arthshahastra*.

† *Kautilya Studien*, by Bernhard Breloer, Vol. III, Pp. 301n and 394.

APPENDIX D

The Year 1943-44

1. Foreign Trade.

The official *Review of the Trade of India* for 1942-43 is not yet out and the *Review* for 1943-44 may not be available before the end of the war. The figures of our foreign trade for 1943-44 were published when the greater part this book had been printed. A brief examination must suffice.

Imports. There was a fall in 1943-1944, as compared with the preceding year, in the imports of manufactures and an increase in those of raw materials and articles of food and drink :

Imports in Lakhs of Rs.

		1941-42	1942-43	1943-44
I.	Food, Drink and Tobacco	27,84	7,62	8,13
II.	Raw materials ...	50,05	51,95	63,94
III.	Manufactures ...	93,54	49,52	45,12
IV.	Living animals ...	2	4	—
V.	Postal articles etc. ...	1,70	1,31	1.67
	Total	1,73,14	1,10,45	1,18,85

The value of the more important imported articles is shown below

	1941-42 Lakhs	1942-43 Lakhs	1943-44 Lakhs
Grain, pulse and flour ...	15,02	31	1,48
Oil, vegetable, mineral and animal ...	21,85	27,78	36,33
Cotton, raw and waste ...	15,34	15,42	17,53
Wool, raw ...	2,77	2,96	4,02
Chemicals ...	3,73	6,38	7,26
Iron and steel ..	6,30	2,81	2,03
Metals, other than iron and steel ...	6,34	3,32	2,09
Vehicles (excluding locomotives for Rys.) ...	13,03	5,71	1,27
Cotton yarns and goods ...	6,80	1,36	1,34

Exports Exports under the main heads increased in 1943-44 as compared with the preceding year :—

Exports of merchandise from India

	1941-42 Lakhs	1942-43 Lakhs	1943-44 Lakhs
I. Food, Drink and Tobacco	58,56	46,07	47,60
II. Raw materials ...	65,38	42 76	44,64.
III. Manufactures ...	1,09,26	95,37	1,04 59
IV. Living animals ...	8	15	24
V. Postal articles etc. ...	4,25	2,39	2,43
Total	2,37,55	1,87,63	1,99,20

The value of the more important exported artices is shown below :

	1941-42 Lakhs	1942-43 Lakhs	1943-44 Lakhs
Grain, pulse and flour ...	10 41	6,03	2,31
Tea ...	30,57	31,64	37,54
Oils, vegetable, mineral and animal ...	2,64	1,37	83
Seeds (including nuts) ...	10 43	10,32	11,16
Cotton, raw and waste ...	17 54	5,31	7,49
Jute, raw ...	10,42	9,02	8,32
Wool, raw ...	2,60	1,20	1,18
Hides and skins, tanned and dressed ..	6,02	4 70	4,87
Iron and steel ...	8 75	1 45	1,05
Cotton, yarn and goods ...	85,96	46,19	42,48
Jute, yarn and goods ...	53,90	36,41	49,46

Balance of trade. The balance of trade further improved in 1943-44.

The balance of trade in merchandise (private)

	1941-42 Lakhs	1942-43 Lakhs	1943-44 Lakhs
Exports ...	2,37,55	1,87,63	1,99,20
Re-exports ...	15,33	7,07	10,96
Total ...	2,52,88	1,94,70	2,10,17
Imports ...	1,73,15	1,10,45	1,18,65
Balance of trade ...	+79,74	+84,25	+91,3[illegible]

The amount of our favourable balance of trade was +17 crores in 1938-39, +95 crores in 1916-17 and +93 crores in 1917-18. The reader already knows why war improves our balance of trade.

Direction of trade. The direction of trade in 1943-44 is shown by the following statement :

	Imports Lakhs	Exports Lakhs	Percentage share	
			Imports	Exports
British Empire :—				
United Kingdom ...	29,80	60,19	25·1	30·2
Canada ...	2,51	4,93	2·1	2·5
Australia ...	4,92	13,31	4·1	6·7
New Zealand ...	28	1,89	0·2	0·9
Total British Empire ...	57,01	1,28,51	48·0	64·5
Foreign Countries :—				
Iraq ...	27,56	1,78	23·2	0 9
Egypt ...	11,19	2,98	9·4	1·5
U. S. A. ...	18,40	40,29	15·5	20·2
Total Foreign Countries	61,84	70,70	52·0	35·5
Grand Total ...	1,18,85	1,99,20	100 0	100 0

The share of the British Empire in imports fell from 55·5% in 1942-43 to 48·0% in 1943-44, and of foreign countries improved from 44·5% to 52·0%. The share of Iraq, 23·2%, is a record for that country. As regards exports, the share of the British Empire, during the same period, fell from 67·1% to 64·5%, while that of foreign countries increased from 33·9% to 35·5%. The share of U.S.A. in our exports increased substantially, from 14·8% to 20·2%.

2. Banking.

The progress of banking (a blessing of 'created money') is remarkable. According to the annual report of the Central Board of Directors of the Reserve Bank, the number of scheduled banks has risen to 76, and that of offices, branches and pay offices of scheduled banks to 2,141—an increase of 534 offices during the year ending 30th June. 1944. The number of offices was 1,252 in September 1939. 88 new offices were opened at places which did not previously enjoy banking facilities. This is a matter for satisfaction. The number of non-scheduled banks was 530 at the end of 1943.

3. Scheduled banks' consolidated position.

The following figures are for 21st July, 1944.

		Crores
Demand liabilities	...	571·22
Time liabilities	...	183·78
Cash in India	...	25·64
Balances with Reserve Bank	...	96·48
Advances in India	...	215·53
Bills discounted in India	...	9·34

The proportion of demand liabilities to total deposits was 75·67% ; of cash and balances with Reserve Bank to total deposits, 16·17% ; of advances and bills discounted to total deposits, 29·67% ; and of bills alone, 1·24%. The investments by scheduled banks in Government securities must be as heavy as before.

4. Sterling Balances.

On 30th June, 1944, the total holdings of sterling balances with the Reserve Bank amounted to Rs. 1,002 crores. Informed circles in India are not disposed to take seriouly the suggestions put forward by the British press for part repudiation or the scaling down of sterling balances. It is expected that the British Government would be willing to consider proposals for the liquidation of these balances (*i*) if the period of payment is extended over 10 to 15 years, (*ii*) if India is prepared to take from Britain not only capital goods but consumers' goods, and (*iii*) if the purchases are confined to the sterling block—which excludes multi-lateral convertibility of these balances.

5. Governmental disbursements.

The expenditure of the Central Government, including expenditure incurred on behalf of Allied Governments, amounted to Rs. 693 crores during 1943-44, or Rs. 1·9 crores daily. The total expenditure incurred since the outbreak of war is 1,765 crores.

6. Note Circulation.

The figures of note circulation during the first six months of 1944 are given below :

	Notes in Circulation: in Crores	
	Actual	Calculated
January ...	852	851
February ...	868	873
March ...	888	895
April ...	896	916
May ...	909	938
June ...	926	960

For calculated figures see p. 10. It would appear that some attempt is being made to control paper inflation, for note circulation has been expanding less rapidly since March, 1944, than during the period Oct., 1941, to Feb., 1944, which gave us the equation :

$$y = 567{\cdot}83 + 21{\cdot}79x$$
$$(x = 0 \text{ for December, 1942})$$

7. Prices.

The rise of prices has been arrested and the wholesale price index (1914=100) is fluctuating around 300. The new Index of Food shows a slight rise :

New Food Index

(Base : week ending August, 1940)

Average for April, 1944 ...	233·8
,, ,, May ,, ...	228·3
,, ,, June ,, ...	236·9
July 1, 1944 ...	236·9
July 15, ,, ...	239·8

In spite of reassuring statements by the Food Member, the food situation is causing anxiety. It is hoped that famine will be averted,

8. The Bombay Plan.

Sir A. Dalal, a joint-author of the Bombay Plan, has joined the Viceroy's Executive Council. This does not mean the acceptance of the Bombay Plan by the Government of India. It may mean that some of the Bombay planners may be persuaded to work the Government of India's plan, about which nothing is known to the public.

Speaking at Delhi on 12th August, 1944, Mr. M.N. Roy strongly criticised the Bombay Plan and said that the economic development of India 'was only possible on the

socialistic basis.'* That means nationalisation of land and capital (as in Russia) as the first step towards planning. Socialists and communists in India are inclined to attach more importance to distribution than to production, forgetting that the instrument of taxation may be used by a National Government to reduce inequalities in the distribution of income. Take all cultivable land and distribute it equally among all agricultural workers. The average agricultural worker would be as poor as before—there is far less land per agricultural worker in India than in Russia. To abolish the right of property in land it would be necessary to seek the aid of the Red Army. So far as his right of ownership is concerned, the peasant is as good a bourgeois as any one else. Ha will never agree to land nationalisation or collectivisation.

The publication of the Bombay Plan had aroused hopes of better times to come. These hopes are dead. The Provinces will not part with Provincial autonomy. Sir Chhotu Ram, for example, believes in 'a free united India with clearly defined Central powers and completely autonomous units with residuary powers.'* It is not realised that the economic development of India through planning is possible only if the constitution is framed according to the requirements of the Plan. With our leaders the constitution comes first and planning next—if they think at all in terms of planning.

APPENDIX E

Alnaschar Plans

"There are plans and plans and there are planners and planners."* For example, there is the Bombay Plan. The authors do not claim to be experts in planning but they possess technical knowledge of industry and, therefore, when they discuss ways and means of industrialising India, they command attention. We may not agree with them in certain particulars, but we cannot accuse them of ignorance. They know what they are talking about.

There is also another kind of planning. I am neither an agricultural nor an industrial expert. But I am trained in Marxian dialectic. Arming myself with paper and pencil, I sit down at my desk and proceed to negate the negation—private ownership by public ownership, poverty by plenty—and lo ! in a few hours I am ready with my plan for the economic development of India. It is so easy ! Any fool can prepare a paper plan. Whether it will work or not is a different matter.

The so-called People's Plan is an insult to the intelligence of even our people. It should be called by its proper name, Mr. M. N. Roy's Plan. But Mr. M. N. Roy prefers to share the credit for the plan with his followers. Let us therefore call it the Royists' plan.

The Royists are not pleased with the Bombay Plan. Why ?

1. Motive.

The Bombay Plan is a capitalists' plan. Indian capitalists have devised an economic programme 'to cap their own ambitions'.† 'The Bombay Plan intends to lead India 'straight to a capitalists' paradise.'‡ It is clear to Mr. M. N. Roy that 'big business alone will be the beneficiary of the plan',§

* *The Alphabet of Fascist Economics* by Parikh and Roy (Renaissance Publishers, Calcutta), P. 5. This work is cited later as *Alphabet.*

† *Ibid*. P. iii.

‡ *Ibid*. P. v.

§ *Ibid*. P. 76.

and that big business seeks aggrandisement 'at the cost of the people.'* 'It is a plan for the big business to make increased profits without risking anything.'†

How can one expect champions of the people to accept a plan devised with such selfish, sinister motives? The capitalist proposes to enrich himself by making the people poorer. Such a plan cannot be too strongly condemned, and the Royists have condemned the Bombay Plan in the strongest possible terms.

Do the authors of the Bombay Plan say or suggest anywhere in their Memorandum on the Plan that it is their object to establish a capitalists' paradise? No. But our capitalist is a sly individual. He would pretend to be the worker's friend and well-wisher, while all the time he is secretly planning the worker's ruin.

2. They did not wait.

The Royists have also another grievance against the authors of the Bombay Plan. Why did they come out with their plan just when they did? Why did they not wait? The Congress had appointed a National Planning Committee. For reasons which are well-known the work of this Committee is incomplete. The Congress might be in a position to plan immediately on the cessation of hostilities, or several years thereafter. In any case, when planning had been undertaken by an authoritative national organisation, its results should have been patiently awaited.

Then, what is worse and really inexcusable, the Bombay planners did not wait even for the Government of India's plan.‡ Have the Government of India a plan for the rapid industrialisation of India? Nothing is known about it to the general public, but the Royists may be better informed. Well, then, let us wait until the Government of India, in consultation with the British Government, have prepared a plan which, within a period of 15 years, will so industrialise India that we shall not require a penny-worth of consumers' goods from the United Kingdom.

* *Ibid.* P. 69.
† *Ibid.* A. 76.
‡ *Ibid.* P. iii.

3. Insularity.

The Bombay Plan is 'insular' in its outlook. There is "undue emphasis on the racial-national aspects of 'national self-sufficiency.'"*

"We cannot think of a post-war India which is not a party to international agreements based on principles, for instance, laid down in the Atlantic Charter, or committed to organisational attempts at the betterment of conditions of lving of the poorer sections of the community as envisaged *e.g.*, by the International Labour Office or the U.N.R.R.A."†

This is a charge brought against the Bombay Plan which its authors simply cannot refute. They plan on the basis of Indian resources, forgetting the International Labour Office, U.N.R.R.A (United Nations' Relief and Rehabilitation Administration), and, the most important of all, the Atlantic Charter which, in the words of President Roosevelt, applies to all humanity, and, in the words of Mr. Winston Churchill, does not apply to India. The outlook of the Bombay Plan is frankly and narrowly national, or parochial. One misses in the Bombay Plan that cosmopolitan breadth of vision, that wide sweep of sympathy, that spirit of international amity, even philanthropy, which have characterised Soviet planning.

Indian planning should be on the basis of world resources. This is an indispensable condition of planning. Mr. M. N. Roy says :

"Economic development planned really with the purpose of promoting general prosperity should begin from an estimate of what is necessary to guarantee the people a continuously rising standard of living. Such a planning of social progress should know no limit of natural resources. The latter are postulated as a limiting condition only in autarchic economy. In these days of mechanical transport, the economic life of any country can count upon the natural resources of the entire world, provided that it also will allow the world the use of its resources. No planning of social progress is possible except with such a world outlook. Indian big business proposes to cut the coat according to the cloth. That apparently realistic proposition will mean that the majority of the people may have to go without any coat."‡

* *Ibid*, P. v.
† *Ibid*, P. ix.
‡ *Ibid*, P. 71.

An irreparable mistake has been made. Since we propose to cut our coat according to our own cloth, the majority of the people will have no coat at all. If we only ask the U.N.R.R.A. or the International Labour Office, for coats for our people, they will send us not only so many coats, but so many over-coats, that we shall not know what to do with. As for our own natural resources, they are limited in extent; every one knows that the pressure of population on the soil is heavy. If we only ask Australia, Canada and South Africa to provide land for Indian settlers, why, we can have as much land as we desire. And if we appeal to the American worker in the name of the Atlantic Charter, the gates of the United States will be thrown wide open to Indian immigrants. Planning for India on the basis of world resources would ensure for Indians a continuously rising standard of living. We agree.

Perhaps the mistake of the Bombay planners is not irreparable. Perhaps Mr. M. N. Roy would succeed in persuading the Governments of U.S.A., Canada and South Africa to permit their resources to be freely exploited by Indians. He may begin with the Union of South Africa. We have no objection to the exploitation of our resources by others; in fact they have done so for centuries.

4. Minimum Requirements.

The minimum requirements in the Bombay Plan are 'very inadequate.'* The Plan provides 'ridiculously small quantities of sugar, fruits, vegetables and meat'.† As regards cotton cloth, the *per capita* consumption allotted is only 30 yards, which is less than half the amount consumed in the United States where cotton piece-goods, Mr. H. N. Roy tells us, constitute only a small fraction of clothing.

The estimate of minimum requirements in the Bombay Plan at once reveal the motive of the whole plan—the enrichment of the capitalist at the cost of the worker.

The Royists' plan makes provision for the daily food requirements of an adult on the following basis:

	Oz.		Oz.
Rice ...	10	Non-leafy vegetables ...	6
Millets ...	5	Green leafy vegetables ...	4
Milk ..	8	Fats and oils ...	2
Pulses ...	2	Fruits ...	2

* *Ibid*, P. 73.
† *Ibid*, P. 73.

The minimum *per capita* requirement as regards cloth is taken as 50 yards.

Are these allowances adequate ? Where is meat ? Where are eggs ? And think of an adult person getting along with 8 ounces of milk ! And what shall I, as an adult person, do with 2 ounces of fruits ? I would rather do without fruits than accept 2 ounces of any fruit. As for 50 yards of cloth. I ask Mr. M. N, Roy to examine his proletarian wardrobe and tell us whether its contents measure not more than 50 yards. I am not a bloated capitalist but a common bourgeois, and my bourgeois wardrobe has much greater length. If all my dhoties (5 yards each), and turbans (7½ yards each), and shirts, and kurtas, and Indian trousers, and European trousers; and coats, and waist-coats, and over-coats, and hosiery, not to speak of table linen, bedsheets, bed curtains etc. etc., were laid out end to end, they would go round the city of Lahore three times. And all that the Royists propose to give the people in the name of a 'People's Plan' is 50 yards of cloth per head! I call that a swindle. It is fairly obvious that the object of the Royists is to establish their own political dictatorship so as to be able to consume thousands of yards of cloth, and tons of milk and ghi, and meat and fruits, while the masses go about practically without clothing and without food.

5. Basic Industries.

There is a sharp contrast between the Bombay Plan and the Royists' plan in regard to the treatment of agriculture and the basic industries. The Bombay Plan, as we have seen, centres round basic industries, which are to be created for rapid industrialisation. The Bombay Plan provides for a 500 per cent increase in the industrial output while the agricultural production will increase by only 130 per cent. The Royists call it 'top-heavy development'* and 'a peculiarly one-sided development of our national economy'.† Their conviction is that 'the foundations of a planned economy for India which will be calculated to lead to a rising standard of living of our people will lie in the domain of our agriculture.'‡

This is a conclusion which will meet with the hearty approval of the Government of India and the British Government. Lord Wavell has said : "Agriculture must take a

* *Ibid.* P. 32 † *Ibid.* P. 33. ‡ *Ibid.* P. 35.

high place—perhaps the highest place of all—in our plans for the development of India after the war." (*Message to the Policy Committee on Agriculture, Forestry and Fisheries dated June 28, 1944*).

Government of India's Plan for Agriculture. While nothing is known of the Government of India's plan for the rapid industrialisation of India, their plan for immediate agricultural development (to be later merged into post-war plans) has been made public. Capital expenditure is estimated at Rs. 1,000 crores over a period of 10 years and recurring annual expenditure at Rs. 20 crores. Of the latter sum the Centre will provide Rs. 2½ crores annually and the balance will be found by the provinces. The plan, it is expected, will increase agricultural production by 50 per cent in the next ten years and ultimately by 100 per cent in 15 years. The programme includes :

1. Training of a huge efficient staff in the provinces to take up the work.
2. Provision of irrigation facilities to increase production.
3. Bunding and drainage connected with irrigation.
4. Manure, including compost oilcakes, chemical fertilisers and green manure.
5. Supply of good seed.
6. Adoption of proper methods of cultivation, including rotation of crops.
7. Control of pests and diseases, and
8. More cattle, both for milk and ploughs.

So far as agriculture is concerned, we may leave planning to the Government of India. For agricultural development there will be no lack of capital—repatriated sterling may flow back to India, if it is made clear that there will be no industrialisation. And the Government of India possess a highly trained staff, to which suitable additions can be made.

The proportion of the rural population at present may be well over 75 per cent of the total. We can raise it further with the willing co-operation of the Government of India and the British Government.

What is a matter of difficulty is the reduction of this proportion, and the diversion of labour from less productive to more productive occupations, that is, from agriculture to industry. If this diversion is held to be wrong, then we have no use for the Bombay Plan—it is not a plan to further

ruralise India. And we have no use for the Royists' plan either, for Government of India experts know a good deal more about agriculture than all the Royists in the world put together.

What is the Royists' objection to basic industries ? Why does Mr. M. N. Roy speak of them as a 'white elephant' ?* The objection is founded on Marxian dialectic and is reinforced by the contrast between Soviet planning and German planning, the former creating an economy of plenty, while the latter produced an economy of scarcity which led to war.

6. An Economy of Plenty : Russia.

The aim of Soviet planning, as we have seen, was the rapid industrialisation of Russia, and, according to impartial observers, Soviet planning neglected light industry. The authors of the Bombay Plan are anxious to avoid the errors of planning in Russia : "Two features of the Russian plans which caused misery and hardship to the masses were : (*i*) their over-emphasis on heavy industries and indifference to consumption goods industries, and (*ii*) their enthusiasm for building huge industrial plants which took years to come into operation."† Now this is to say that Stalin deliberately planned an economy of scarcity, which is impossible. The scarcity of consumers' goods in Russia during the planning period was, therefore, only apparent, not real. The talk of Russian sufferings is 'fictitious'.‡ The Royists are not at all impressed by 'this shedding of tears for the sufferings of the Russian people.'§

'Soviet planning,' we are told, 'could provide for the development of the basic industries, not only without sacrificing the consumption goods industries, but also with the guarantee, contained in the plan itself which provided for the ever-increasing purchasing power in the hands of the Russian people.'‖

There is a convincing proof of the ever-increasing purchasing power of the Russian people—the increase in the national pay-roll. We read in *U.S.S.R. Speaks for Itself.* :

* *Ibid*, P. 66.
† *Memorandum on the Bombay Plan*, P. 52.
‡ *Ibid, Alphabet*, P. 19.
§ *Ibid*, P. 19.
‖ *Ibid*, p. 24.

"The national pay-roll has increased nearly twelve times in the past ten years; in 1928 it amounted to 8,200 million roubles, in 1933 to 34,900 million roubles, and in 1938 to 96,400 million roubles. The average annual earnings of the industrial worker rose from 1,513 roubles in 1934 to 3,447 roubles in 1935."*

The national payroll in 1941 amounted to no less than 175,000 million roubles.†

Soviet authors are aware that the standard of living is measured 'not only by the steady increase in the national payroll, but also by the rise in real wages.'‡ This was pointed out by M. Molotov at the 18th Congress of the Communist Party of the Soviet Union. Referring to the achievements of the Second Five Year Plan (1933-37) he said:

"While there was an 18 per cent increase in the number of workers and employees, the national pay-roll showed a 2½ fold increase or a rise of 151 per cent, as against 55 per cent, specified in the Second Five Year Plan (a 101 per cent increase)."§

This Soviet method of calculating real wages is a contribution to the science of economics First determine the percentage increase in the national pay-roll. If the number of workers and employees has remained constant, the percentage increase in real wages is equal to the percentage increase in the national payroll. But as the number of workers and employees is not likely to remain constant, the percentage rise in real wages will be somewhat less.

We are not at all concerned with the cost of living!

The national payroll in India may have easily trebled since the outbreak of the war. This is entirely possible considering that the note circulation has increased from less than 200 crores to over 900 crores. Allowing for the increase in the number of workers and employees, real wages have thus tremendously increased since the outbreak of the war.

And yet the present writer, a worker, is 3-4 times poorer than he was in 1939—on account of the rise of prices.

* *U.S.S.R. Speaks for Itself*, reprint in one volume, 1943, p. 106.
† *Ibid.* P. 53.
‡ *Ibid.* P. 106.
§ *Ibid.* P. 106.

How much did prices rise in the Soviet Union between 1933 and 1937 ? This information is not available. Stalin suppressed the publication of index numbers of general prices and cost of living.

In the absence of official statistics of prices we turn to travellers' accounts of Soviet plenty. The following table shows prices in Russia and England in December 1937 :*

Food	Price in Russia Roubles	Price in England
Wheat flour, per lb' ..	1·82 to 2·54	2½d.
Meat ,, ...	3·18 to 5 45	4¼d. to 1s, 4¼d.
Sugar ,, ...	1·73 to 1·82	2½d. to 3d.
Butter ,, ...	6·81 to 9·09	1s. 4½d. to 1s. 5¾d.
Potatoes per 7 lbs ...	1·91	6¼d.
Eggs per dozen ...	6·60 to 9·00	2s. 6d.
Onions per lb. ...	0·50	2d.
Cabbage ,, ...	0·27	1½d.
Carrots ,, ...	0·27	2d.
Tomatoes ,, ...	2·27	4d. and 6d.
Dress		
Men's winter coats ...	500 to 1500	£1-10s. to £8-10s.
,, water-proofs ...	200 to 300	14s.-6d. to £1-1s
,, suits ...	700 to 1200	£1-10s. to £3-15s.
,, hats ...	25 to 40	5s.-6d. to 7s.-6d.
,, boots and shoes...	150 to 300	8s.-11d. to 18s.-11d.
,, shirts ...	32 to 46	3s-11d. to 8s.-11d.

Sir Walter Citrine takes about 250 roubles as the average monthly earnings for 1937.†

Assume that your monthly earnings are Rs. 250 a month and that wheat flour is selling at Rs. 2 per lb. or Rs. 4 per *seer* or about Rs. 160 per maund ; eggs at Rs. 6-9 per dozen ; boots and shoes at about Rs. 200 per pair, and a shirt at about Rs. 35. You will then be living in luxury in a land of plenty, like the average Soviet worker in Soviet paradise.

7. An Economy of Scarcity ; Germany.

While Soviet planning created plenty, German planning created scarcity : "While the Russian planning implied an

* For these figures and a full-discussion of real wages in U.S.S.R. Germany and India see *Marxism is Dead* by Brij Narin. (Lahore, 1939). Chapter V.

† *Ibid.* Pp. 143-44.

increasing standard of living for the people, the German planning led to a depression of that standard and ultimately to the war."*

For a proof of the fall in the standard of living of the German worker we turn to Guillebaud's *Economic Recovery of Germany, 1933-37.* The average weekly real earnings of the German industrial wage-earner rose from 106·7 in 1933 (July-December 1932=100) to 121·8 in 1937.† It is possible to calculate real earnings for Germany as statistics of money wages as well as cost of living are available.

The Germans have a morbid sense of humour, Fascist planning continually depressed their standard of living, reducing them ultimately to starvation, and yet they joked about non-existent Soviet scarcity :

Shoes‡

A German tourist asks a Russian interpreter :

'Why do most of the workers go about barefoot' ?

'Comrade, our slogan is 'Overtake and surpass' (the reference is to overtaking and surpassing American industrial production). It may be known to you that in running shoes only hinder a Russian."

An impossible situation§

A candidate for admission into the Communist Party appears before a Board of Examiners :

'How would you describe a situation in which the authorities of a district so arranged matters that peasants had enough to eat while the workers starved' ?

'That is obviously a right deviation from the general line'.

'And when in this district the workers had shoes while peasants went about barefoot in winter' ?

'This is naturally a left deviation.'

'And how would you describe a situation in which workers as well as peasants had enough to eat and to wear' ?

This impossible situation is not provided for in any communist text-book and the candidate said passionately :

* *Alphabet*, p. 50.
† Guillebaud. Loc. cit., pp. 100-01.
‡ *Hart auf Hart*, by Alexander Wienberger (who worked as an engineer in the Soviet Union for 15 years). Verlag Anton Pustet (Salzburg & Leipzig), 1930. P. 230.
§ *Ibid*. Pp. 231-32.

'Such a situation would have nothing at all to do with communism. That would be Fascism in its naked Kultur'.

*The Unemployed** .

This anecdote relates to the year 1932.

Masloff meets his old teacher in the streets of Moscow and makes enquiries about the teacher's welfare and his three sons.

'And your three sons'?

'The youngest, the technician, is employed as an artist in a Trust. He could rise to a better post but as a responsible officer one sooner or later ends in a Tscheka dungeon; now he is at least safe; he starves (*er hungert sich durch*). The other, who studied medicine, works in a hospital at Samara. When private practice was allowed, he was able to get along, but to-day—what can one do with a salary of 300 roubles when a kilogramme of meat costs 12 roubles' ?

'And your eldest, the officer'?

'During the war he was taken prisoner by the Germans. He remained in Germany and used to earn a fair amount; unfortunately he is at present unemployed'.

'Ah ! the poor man.'

'It is not so bad,' the teacher said. 'If he did not now and then send us something out of his unemployed relief, all three of us should die of starvation.'

Maria de Smeth in her *Unfreiwillige Reise nach Moskau* (1939) mistook the sale of potatoes by number in Russia as a sign of scarcity (*Not*, want or misery)†. She relates the experience of a girl employed as a packer in a Soviet jam factory. In a box meant for export she laid a note : 'We get no such conserves, we are starving—a woman worker.' She was caught and imprisoned.‡ She got what she deserved. She had mistaken, like many others, Soviet plenty for scarcity !

8. War.

The reader now knows the difference between planning for plenty, as in Russia, and planning for scarcity, as in Germany. The Bombay Plan is thus characterised by Mr. M. N. Roy:

* *Ibid.* p. 244. (The whole appendix to the book is devoted to delightful Soviet anecdotes).

† *Unfreiwillige Reise nach Moskau* by Maria de Smeth. Nibelungen Verlag. Berlin & Leipzig (1939). p. 230.

‡ *Ibid.* p. 99.

'An economy of scarcity is planned. That again is Fascism.'*

An economy of scarcity results from the development of basic industries. The first place in Indian planning should be given to industries producing consumers' goods.

There is also a powerful objection to developing small-scale and cottage industries : "It is a peculiar feature of the Japanese economy.'†

"Another aspect of the plan, *viz.*, the utilization of the cottage and the small-scale industries for the production of consumers' goods, has a striking resemblance to the Japanese economy. This may improve the competitive capacity of the industry in the foreign markets...But it has nothing to do with the improvement in the standard of living of the people. The plan will thus lead only to poverty in the beginning and war in the end."‡

If we develop basic industries, we are following Germany;§ if we promote small-scale and cottage industries, we are following Japan. In either case there is war. Mr. M. N. Roy writes :

"Continued poverty, abolition of freedom and liberty on the pretext of promoting national welfare, and eventually a war of aggression—that is the Golden Age promised to the Indian people by nationalism."‖

A war of aggression—this is the ultimate objective of the Bombay Plan. Who will be the first victim of our aggression? Which prey is India seeking ? The question is easily answered. Which country is the bitterest, most determined foe of capitalism ? Communist Russia. Indian capitalists are planning the conquest and destruction of the Soviet Union, 'the base of the world revolution.' The hidden purpose of the Bombay Plan is thus laid bare, It is a capitalist conspiracy against the Soviet Union.

Do we want war ? No. Let us, therefore, plan for peace and plenty, like Russia. Mr. M. N. Roy has indeed said that for

* *Alphabet*, p. 74.
† *Ibid.* p. 26.
‡ *Ibid.* p. 67.
§ "The plan puts a much greater emphasis on the basic industries —a trend of development very similar to that of German planning". *Alphabet*, p. 57.
‖ *Ibid.* Pp. 68-9.

India socialist planning is not only premature but utopian.* But he may be mistaken.

Did Russian planning include preparation for a war of aggression ? What a question ! Russia was a peace-loving nation. 'The Soviet Union sees no ground for changing her policy which was, is, and will be a policy of peace'†—said M. Litvinov on one occasion, and in the same speech he exposed the 'hypocrisy and mendacity' of the enemies of peace, the war-mongering nations. M. Litvinov's speeches have been published in book form with the title *Against Aggression*, and yet the Soviet Union did not hesitate to stab Poland in the back, and to invade Finland.

There is a difference between Lenin's Russia and Stalin's Russia, Lenin had no land-hunger. This is shown by his attitude towards Poland and Finland.‡ The Soviet attack, on Finland made Sir Walter Citrine exclaim : 'Socialism ! It is a vile insult to associate the excesses of the Imperialist Stalin and his coterie of despots with a word which has provided the inspiration and hope of millions of mankind.'§

* *Ibid.* p. 92.

† *Against Aggression* by Maxim Litvinov (London, Lawrence and Wishart). 1939. p. 78.

‡ In an article on 'Lenin and Foreign Policy' contributed by Tschitscherin (Soviet Commissar for foreign affaires under Lenin) to *Lenin, Leben and Werk* (a joint-work containing contributions by several noted co-workers of Lenin, since 'liquidated'. Published in 1924. Verlag fuer Literatur und Politik, Vienna. p. 99), Tschitscherin said : "When negotiations began with Poland, Waldimir Iljitsch (Lenin) conceived the brilliant idea of offering more territory to Poland than was offered to her by Clemenceau and Curzon. And when negotiations were proceeding in Riga, Walidmir Iljitsch telephonically examined all proposals that were made to us and insisted on the signing of the Agreement in its present [1924] from".

In regard to Finland, Lenin wrote in *Pravda* of May 15, 1917 : "Tsar and others are against an agreement with the Finnish Diet. They want to subjugate Finland to Russia. Class-conscious proletarians and Russian Social-Democrats, true to their programme, are for the freedom of Finland as of other non-sovereign nationalities. Finland was annexed by Russian Tsars through a deal with Napoleon. If we are really against annexations, we must come out openly for Finland's freedom. After we have said and practised it then and only then will an agreement become a really voluntary, free and true agreement and no deception. Comrades, workers and peasants, do not be carried away by the annexation policy of the Russian Capitalist concerning Finland, Courland and Ukraine. Do not fail to recognize these people's rights to independence" *British Official Wireless*, dated London, 6th December, 1939.

§ *Finnish Diary* (Penguin), p. 43.

As for Poland, no one can speak with greater authority than the Poles themselves. "Poland has not staked everything to oppose totalitarian Germany (an Enemy) to become a victim of totalitarian Soviet Russia (an Ally)."* Poles certainly do not want to be 'liberated' by the Soviet Union, for they speak of this 'liberation' as changing one yoke for another. Russia has no historic claim to Eastern Poland, and no ethnogaphic claims either—in Eastern Poland, there were only just over 1 per cent Russians. As for 'strategic reasons,' Eastern Poland has no natural obstacles and it has no strategic value to Russia. It is also pointed out that Poland is 54 times smaller than the U. S. S. R., and the question is asked: "Why should additional (doubtful) security for the enormous and strong U. S. S. R. be made at the expense of the security of Poland?"

9. Finance.

The Financing of the Bombay Plan is its weakest point. Sterling balances are to be used for the purchase of capital goods. This, according to Mr. M. N. Roy, is 'misappropriation of a public asset.'† 'Created money' means inflation on a large scale, 'which will depress real wages and despoil the primary producer.‡ The low standard of living of the masses will be 'aggravated by inflationary finance.'§ And yet, writing earlier, Mr. M. N. Roy took a different view both of inflation and the use of sterling balances for the purchase of capital goods.||

* See *Polish News* for June 1944, pp. 96-97 and p. 91. The paper is published by the Polish Union in India from Bombay.

† *Alphabet.* p. 66.

‡ *Ibid.* p. 63.

§ *Ibid.* p. 63.

|| Writing in August, 1943, Mr. M. N. Roy thus referred to our sterling balances: "The payment must be made mostly in capital goods because immediately India will not be able to take any considerable amount of consumers' goods. If it was to the interest of British trade to obstruct the industrialisation of India, Britain could withhold payment instead of paying in capital goods." *Poverty or Plenty?* p. 126.

Writing on July 16, 1943, Mr. M. N. Roy said: "The import of capital goods in large quantities, not involving any cash investment, will speedily equip Indian industries for mass production. In order to avoid the absurdity of over-production in the midst of general want, the condition for mass consumption will have to be created. Controlled inflation on the basis of the sterling balances will create that condition." (*Poverty or Plenty?* p. 111). As such, then, there is no objection to controlled inflation—it may as well be on the basis of *ad hoc* securities.

10. Planning for Plenty. My Plan.

The Royists see nothing good in the Bombay Plan. Neither do I. It is Fascism from beginning to end—scarcity, loss of liberty and freedom, and war in the end. I have my own plan for the economic development of India, which is entirely different.

I proceed to unfold my plan. I do so in the role of Alnaschar of the *Arabian Nights*. I can naturally assume that role.

The reader has alredy gathered that I am not satisfied with 'the most minimum' requirements of the people as estimated in the Royists' plan. The Royists do not allow more than 2,600 calories of food per adult per day*—their plan, in this respect, is no improvement upon the Bombay Plan. When you are planning for plenty, with an international outlook, and with world resources at your command, why give the people 'the most minimum' quantities of milk, *ghi* and fruits? Instead of 8 ounces of milk I will give an adult 2 seers daily; instead of 2 ounces of fats and oils, I will give him half a seer of pure *ghi* (no vegetable substitute); instead of 2 ounces of fruits, I will let him consume three seers (in terms of mangoes 2 ounces represent 1/4th of one mango, which is ridiculous). I will calculate consumption of cloth at the rate of 200 yards per head—which is four times greater than the provision in the Royists' plan. I will give every family a *pakka* house with six furnished living rooms, and a modern kitchen, a modern lavatory and a modern bath, with hot and cold water running all the 24 hours. In the Royists' plan all the services in respect of health, education and housing are to be rendered free†. This is nothing. I will provide free motor cars, free railway travelling, free entertainments, free meals at public eating-houses, and, last but not least, holidays with full pay for six months

Sterling balances could not be utilised both for the purchase of capital goods and as cover for the note-issue. Nor, as is clear, had Mr. M. N. Roy any objection to the use of sterling balances for the purchase of capital goods. But, in the Bombay Plan, the use of sterling balances for the same purpose is '*misappropriation* of a public asset', basic industries are a 'white elephant', and 'created money' becomes a means of depressing real wages and despoiling the primary producer. Mr. M N. Roy speaks with two voices. This is posssible in Marxian dialectic.

* *People's Plan*. p. 30. The energy value of the diet in the Bombay Plan is also 2,600 calories. See *Memorandum on the Bombay Plan*, p. 8.

† *People's Plan*, p. 30.

in the year. This is my estimate of 'the most minimum' requirements of planning for plenty.

How shall I finance my plan ?

Not by using sterling balances, which is inflation. I will let my plan finance itself.

Within 10 years I will bring 400 million acres of new land under the plough. As it would be virgin soil, its productivity would be high, and, after meeting 'the most minimum' requirements of the people, it would leave a substantial surplus year after year. This surplus would be utilised to finance the plan. How simple it is! The plan finances itself. It finances itself provided you give agriculture the first place in your scheme of reconstruction. Start with basic industries, and consumers are immediately hit; start with agriculture, and no one need restrict his consumption of anything. Agriculture yields a *produit net*, not manufacture. The old Physiocrats knew that.

The Royists may ask : 'Where will you find 400 million acres of new land in India' ?

I ask the Royists : 'Where will you find 100 million acres of new land in India' ?

In the *People's Plan* we read :

"The net area sown in British India is about 210 million acres. During the period of the ten year's plan this should be extended by about 100 million acres of new land. This would amount to bringing under the plough new land of about 50 per cent of the present net sown area."*

The self-financing of the Royists' plan is based largely on the surplus which this new land will yield. We may, therefore, examine their estimates of income from new land as well as land already under cultivation.

11. The Ratios and the Art of 'Lifting' them.

In the case of industries the Royist planners assume a new income of Rs. 5 per every Rs. 12 of capital,† a ratio of 2·4 of capital to income.

In the case of all agricultural investments, except that on the reclamation of land, 'the new income that will come as a

* *Ibid.* p. 18.
† *Ibid.* p. 41.

result of investment of 1 rupee by way of capital will be 1·2 rupees. The income in the case of new land sought to be brought under the plough can be estimated at 2 Rs. per rupee invested.'*

For industries the Bombay Plan assumes a ratio of 2·4. The authors of the Bombay Plan are aware that there are wide variations in this ratio (we have seen that in the United States the ratio is considerably higher). The Royists have made no independent investigations but simply 'lifted' this ratio from the Bombay Plan, of course without acknowledgment—an act of literary thieving.

How do they estimate that in the case of land now under cultivation, a rupee of new investment will yield an income of 1·2 rupees? No explanation is offered. This ratio is probably the result of another act of literary thieving. The Bombay Plan proposes to raise agricultural net income from 1,166 crores (1931-32) to 2,670 crores at the end of 15 years, an increase of 1,504 crores. The investment in agriculture is 1,240 crores. Dividing 1,504 by 1,240 we get 1·21.

A disadvantage of 'lifting' is that sometimes you do not know what you have 'lifted'. The estimate of 1·2 rupees of income from agriculture for each rupee of new investment is not intended to be exact in the Bombay Plan. The actual ratio must be lower, for the estimate of agricultural income in 1931-32 is on the basis of harvest prices,† while that of expected income at the end of the planning period is on the basis of retail prices, which are higher than harvest prices. Further, agricultural development in the Bombay Plan does not exclude extension of cultivation to new areas. Actually, so far as land already under cultivation is concerned, a rupee of new investment may yield, not 1·2 rupees of new income but less than a rupee.

How do the Royists estimate that, in respect of new land, a rupee of investment will yield 2 rupees of income? They do not know. It is an assumption. I may assume a productivity three or five times greater for my plan—with as good, or as little reason.

12. New Land.

Where are 100 million acres of new land to be found in India? The following table, borrowed from the *Statistical*

* *Ibid.* p. 44.
† *Memorandum on the Bombay Plane*, p. 24 *n.*

Abstract for British India for 1939-40, shows the classification of area in British India* :

Classification of area, in 1000 acres

1	2	3	4		0	7†
Province	Forests	Not available for cultivation.	Other uncultivated land excluding current fallows	Current fallows	Net area actually sown.	Cultivable area included in figures in Col. 4.
Ajmer-Merwara...	47	648	472	108	227	—
Assam ...	4,166	4,577	18,089	1,413	6,639	—
Bengal ...	4,615	9,409	6,630	4,743	24,916	143
Bihar ...	6,607	6,148	6,802	6,779	17,092	—
Bombay ...	8,331	5,665	951	5,232	28,510	203
C.P. and Berar ...	15,861	4,882	14,010	9,086	24,213	5,151
Coorg ...	332	350	12	101	149	—
Delhi ...	—	82	64	24	109	—
Madras ...	13,188	14,510	10,904	9,781	31,460	—
N.W.F.P. ...	353	2,669	2,924	630	2,001	—
Orissa ...	2,638	6,212	3,177	1,081	6,435	47
Punjab ...	1,974	12,984	14,984	4,985	25,744	4,496
Sind ...	720	11,203	8,145	5,166	4,946	—
U.P. ...	9,280	9,906	9,889	2,479	36,501	—
Total ...	68,112	89,314	97,188	47,228	209,060	10,010

Figures in col. 3 may be taken to mean barren land, land covered by roads and buildings, or land devoted to non agricultural uses. New land is to be found in col. 4. The total of 'Other uncultivated land, excluding current fallow' is a little over 97 million acres, of which 10 million acres are known to be definitely cultivable. How much more new land, now uncultivated, may be brought under the plough ? I do not know. But add 3 million acres to 'Other uncultivated land, excluding current fallows', and you get the Royists' 100 million acres of new land.

* p. 341.

† 'Figures given in this column represent areas definitely known to be cultivable.'

The net area sown with crops has been stationary for the past 20 or more years. It would not have been stationary if 100 million acres of new land had been available for cultivation.

The Royal Commission on Indian Agriculture (1928) included Indian and European experts. Search the voluminous report of the Commission for 100 million acres of new land. They are not mentioned anywhere. The Agricultural Commission are aware of 'the heavy pressure on the land'.* They discuss the development of rural industries as a means of relieving this pressure; they point out the advantages of mobility of labour and estimate the possibilities of overseas emigration in this connection. But they do not envisage the possibility of relieving the pressure on land and increasing agricultural output by 400 per cent within ten years by bringing new land under the plough.

The situation has been recently examined by the Foodgrains Policy Committee. In para. 15 of their report the Committee say:

"A glance at the agricultural statistics of India shows the existence of very large areas of land described as 'cultivable waste other than fallow'. From this it would, however, be a mistake to jump to the conclusion that with such large areas lying uncultivated it should not be difficult to produce the food required by simply extending cultivation to them. There are practical difficulties in quickly bringing such culturable but uncultivated areas under cultivation; otherwise the pressure of population and the land hunger of people would have brought them under the plough long ago. Some of them are located in unhealthy tracts, others lack irrigation facilities, some again are situated in tracts where labour is not easily available and others, again, are such as would not yield an economic return under normal conditions. The work involved in bringing the major portion of these lands under the plough is of a long-range nature and is more suitable for consideration and action on the basis of a post-war reconstruction plan."

Very probably the Royist planners have been misled by the last sentence. The work of bringing new land under the plough is of a long-range nature—how very long-range, we shall presently see. They are concerned with post-war

* *Report of the Agricultural Commission*, p. 575.

reconstruction, and all difficulties are solved if it is assumed that 97 million acres of 'other uncultivated land, excluding current fallows' can be made to yield abundant harvests within ten years. The additional 3 million acres may be obtained by cutting down forests, or levelling down part of the Himalayan range, or pushing back the Indian ocean.

13. Distribution of New Land.

Let us suppose that the new land is distributed over British India in the same proportion as the net sown area in 1939-40 (this is not necessary):

Actual distribution of net sown area in 1939-40 and supposed distribution of new land in British India.

	Net area actually sown in 1939-40 in million acres	Net area actually sown as percentage of the total, per cent	Supposed distribution of new land. Million acres.
Ajmer-Marwara ...	0·227	0·11	0·11
Assam	6·639	3·16	3.16
Bengal	24·916	11·87	11·87
Bihar	17·992	8·57	8·57
Bombay...	28·540	13·59	13·59
C.P. and Bihar	24·213	11·53	11·53
Coorg	0·149	0·07	0·07
Delhi	0·199	0·10	0·10
Madras	31·460	14·98	14·98
N.W.F.P	2·001	0·95	0·95
Orissa	6·435	3·07	3·07
Punjab	25·744	12·26	12·26
Sind	4·946	2·36	2·36
U.P.	36·500	17·38	17·38
Total	209·960	100·00	100·00

The share of the Punjab is a little over 12 million acres. The cultivable area in the Punjab is shown as about $4\frac{1}{2}$ million acres. If the Punjab does not produce another $7\frac{1}{2}$ million acres of new land, some other provinces must make good the deficiency. Which is that province?

How long shall we take to bring $4\frac{1}{2}$ million acres of culturable area, and the remaining $7\frac{1}{2}$ million acres of the Royists' plan, under the plough? Ten years? If it is possible at all, we may take 50 or more years.

There is no province where canal irrigation has achieved a greater miracle than in the Punjab. There is no province with a more vigorous peasantry than the Punjab. And adminis-

trative standards of the Punjab are certainly not lower than those of any other province.

In 1868-69 the cultivated area of the province was 20·2 million acres, of which about 6 million acres were irrigated, mostly from wells. Ten years later the cultivated area was about 23½ million acres, of which 7 million acres were irrigated. Canal construction began about 50 years ago and the area irrigated by canals steadily increased from year to year; it amounts to over 11 millions acres at present. The total sown area, including area sown more than once, is about 30 million acres. In all 10 million acres have been added to the area under cultivation during the past 75 years.

Have we no further irrigation projects? Yes, we have three of them, the Haveli, Thal and Bhakra Dam projects. When the Haveli canals are fully developed, they will provide perennial irrigation to more than half a million acres. The other two projects may bring another half a million acres (a little more) under the plough. That is all.

Referring to the three projects, Sir Manohar Lal, in his speech on the budget estimate for 1939-40, said:

"With these three achieved, it would be literally correct to say that every available ounce of water in our rivers shall have been utilized; the Punjab will, for the first time, bear truly and fully the title of the land of the five rivers." And Sir Manohar Lal added: "The theme can be interpreted only in the impassioned utterance of a poet; it lies beyond the powers of a Finance Minister to depict."

Sir Manohar Lal thinks that he has done enough.

But we want 12 million acres of new land. We have utilized every available ounce of water in the Punjab rivers; therefore, to meet this demand, two or three new rivers must be created as soon as, or before planning begins.

We may assume that new rivers will begin to flow over India to irrigate 100 millions acres of new land. Rivers are to be preferred to tube wells as canal irrigation is cheaper than tube well irrigation.

Possibilities of tube-well irrigation were discussed by the Royal Commission of Indian Agriculture:

"All that can be said with confidence, in present conditions, is that irrigation from tube-wells is never cheap as compared with canal irrigation. The Director of Agriculture in the

United provinces informed us that it does not pay unless intensive cultivation is adopted and unless a valuable crop such as sugarcane, potatoes or tobacoo is grown. He added that it is not a business proposition to irrigate only wheat or other *rabi* crops grown on the indigenous system, with yields of 15 maunds per acre, except in cases in which the discharge is high and the lift is low."*

Tube-wells cannot be sunk everywhere. The water-bearing strata have to be found and the lift has to be considered. The lift is not the same everywhere. For example, it is higher in the Punjab than in the United Provinces. On an average, the cost of tube-well irrigation in the Punjab is about 2½ times that of canal irrigation. So far tube-well irrigation has been used in the Punjab to supplement canal irrigation, and the tube-wells have been sunk in the neighbourhood of canals.

The investigation of water-bearing strata will take a long time. One may assume that with the help of the divining rod these strata will be easily located, wherever we want them, say, within six months; that machinery would be installed and that the tube-wells would be working within, say, another six months; that machinery, once installed, would last for ever; and that power for working tube-wells would become so cheap that the cost of tube-well irrigation would be only a fraction of that of canal irrigation. Assuming all that, it may be possible to bring 100 million acres of new land under the plough within ten years. Not otherwise.

It is certainly possible to add to the existing area under cultivation by the development of canal irrigation, tube-well irrigation and irrigation from other sources. But the hundred million acres of new land in the Royists' plan are fictitious, the surplus that the new land is expected to yield is fictitious, and the self-financing of the plan is fictitious.

14. Quintupling of Agricultural Output.

The Government of India's agricultural plan, as we have seen, aims at an increase of 50 per cent in agricultural production in 10 years and a 100 per cent increase at the end of 15 years. The Bombay plan provides for an increase of about 130 per cent. The Royists' plan is based on a quintupling of agricultural output within 10 years.

* *Ibid*, P. 341.

The five-fold increase is entirely imaginary, but suppose a miracle happens, and at the end of 10 years India is actually producing five times as much of each food-crop and non-food-crop as before :

	Estimated yield 1939-40†	Anticipated yield at the end of the planning period
Rice (cleaned) million tons ...	25·7	128·4
Wheat ,, ...	10·8	54·0
Tea, million lbs. ...	453·0	2,265·0
Cotton, million bales of 400 lbs. ...	5·8	29·0
Jute ,, ...	9·8	49·0
Linseed, million tons ...	0·5	2·5
Rape & mustard, million tons ...	1·1	5·5
Sesamum ,, ...	0·4	2·0
Groundnuts ,, ...	3·2	16·0
Castor seed ,, ...	1·0	5·0
Raw sugar (gur ,, ...	4·7	23 5

If our agricultural output were to attain, within ten years, the dimensions shown in the last column of the table, difficulties will be created of which the Royist planners have no conception.

It cannot be seriously argued that the normal growth of population during 10 years will absorb the five-fold increase in agricultural production, even allowing for the fact that at present the great majority of the people are under-fed. The demand for food is far less elastic even in India than that for manufactured goods. Increase the purchasing power of the masses, and they will be easily able to consume five times more manufactured goods, but not five times more rice, five times more wheat, five times more tea, and five times more gur or sugar. Quintupling of agricultural production must assume at least a doubling of the population of India within 10 years.

Our birth rate is good—in fact it shows a rising trend between 1920 and 1940 ($y=33{\cdot}714+0{\cdot}116x$, with origin at 1930). But high as the birth rate is, it will not give us 40 crores within 10 years. Family allowances are indicated. They are a part of the Beveridge plan. But we need them more. Perhaps Rs. 100 per month per child, beyond the first will sufficiently stimulate the birth rate. The 'most minimum'

† *Statistical Abstract for British India for 1939-40* p. 548.

requirements of the plan, it is obvious, must include family allowances.

15. World Revolution.

-- Allowing for the greatest possible increase in consumption in India, a quintupling of agricultural output would still leave a considerable surplus. It will have to be dumped abroad.

The most important cause of the Great Depression was over-production. Agricultural countries sought to dump their surpluses into the industrial countries of Europe, which led to the rise of a complex system of quantitative controls in the shape of quotas, conventions and prohibitions.

A World Commodity Control is indicated

The fact is that there is no satisfactory solution of the economic problems of the world without a world government, from one centre, on communist lines.

We started with Indian planning but we are inevitably led, by the logic of facts, to the World Revolution, without which no world government can come into being. Let us, therefore, seize the banner of the World Revolution, hold it aloft, and march on fearlessly to the goal with the two great World Revolutionaries, Mr. Winston Churchill and President Roosevelt. Marshal Stalin cannot join our procession. He abandoned the role of a world revolutionary long ago. He believes in socialism in one country, or national socialism !

Perhaps we owe the reader an apology for this mostly non-serious discussion of the so-called 'People's Plan.' But when Alnaschar plans one can only laugh.

INDEX